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Current History

JANUARY, 1987

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Almost all the countries of South America are now governed by democratically elected leaders. This issue discusses the problems confronting the new governments, especially the questions of political stability and the repayment of foreign debt. The possibility for electoral changes in military-ruled Chile and Paraguay is also evaluated. Our lead article finds that "when viewed in the larger picture or compared with other, past eras, United States-South American relations are improving. There is now a certain maturity in United States-South American relations."

United States Relations with South America

BY HOWARD J. WIARDA

Professor of Political Science, University of Massachusetts

THE United States and South America have been going through a long-term process of readjustment that is often painful and prone to misunderstandings on both sides. In the last 20 years, relations between the United States and the nations of South America, particularly the larger nations, have been altered fundamentally as new realities have come to the fore: in the United States, in Latin America, and in the overall international context.

The United States is a more restrained nation now than it was in 1965 on the eve of its entanglements in Vietnam and the Dominican Republic. The United States is more wary of foreign interventions that involve the commitment of United States troops and resources, less willing to become involved unless the mission can be accomplished quickly and relatively painlessly, no longer eager to serve as the "policeman of the world." In addition, United States foreign aid to South America is down, military and diplomatic missions are smaller, and the levers available to the United States in dealing with the South American countries are considerably reduced. In the early 1970's, it was thought that private United States investment would compensate for the lessened official presence, but investment in South America has also been considerably diminished, and many American firms operating in the region are rapidly reducing their investments there in favor of greener pastures elsewhere.

While the United States is a somewhat diminished presence in South America (but still the most important country with which these nations must deal), the South American nations have become stronger, more

assertive, more nationalistic and more independent. Most of the South American nations are more affluent overall than they were two decades earlier, more developed and more self-confident. They are all pursuing more independent foreign policies and are trying to reduce or renegotiate their dependence on the United States. Argentina and Brazil have emerged as significant third-level powers on the world scene, while countries like Colombia, Venezuela, Peru and Chile have become significant regional powers. The tides of nationalism are gaining momentum in all countries of the region, rendering their relations with the United States more complex and difficult and decreasing their willingness to subordinate their foreign policies to United States leadership.

The overall international context has also been altered. While the United States presence in South America has been shrinking, the presence of the Soviet Union, Japan, France, Germany, Spain, the Socialist International and other actors has been increasing. The post-World War II era when the United States was virtually the only outside actor in South America is over. Relations with the United States still dominate South America's bilateral relations, but increasingly a situation of complex multilateralism, competing loyalties and more diversified trade and political relations has evolved. The United States presence and power in South America have not been eliminated, but the continuing economic crisis, the debt issue, the democracy and human rights agenda, the drug issue and nationalism have certainly made relations more complicated.

In the last five years, South America has been going through its worst depression since the 1930's. The causes of this decline are well known: the two great oil shocks of the 1970's, depressed commodity prices, woeful economic mismanagement, corruption, extravagance on the part of the South American nations themselves and (above all else) the world economic downturn of the last half decade. The gross national product (GNP) in many South American countries has declined or turned stagnant, and in some countries the standard of living has plummeted to 1960's levels. Making large and optimistic assumptions, economists estimate that it will take South America until the year 2000 to "recover"—that is, to regain late-1970's levels of prosperity.

The continuing economic crisis at a time of rising expectations has produced a severe social crisis in many countries. Food protests and even riots, peasant take-overs of private landholdings, wildcat strikes, and other forms of organized and anomic resistance are increasing. Throughout South America, drug use, alcoholism and wife- and child-beating are all rising. The crisis has come at a time when peasant, urban and rural working classes, and Indian marginals have been increasingly mobilized and are unwilling any longer to accept their miserable condition as immutable or God-given. The social crisis has the potential to undermine various governments—though it must be said that so far South America's economic downturn and social protests have produced surprisingly few serious guerrilla challenges.

If the economic and social crisis persists, however, it may undermine the political systems of the region. This would be particularly unfortunate because South America is now governed by perhaps the best collection of democratically elected Presidents (except in Chile, Paraguay and Suriname) in its history. These are, generally, prudent, able, middle-of-the-road Presidents who recognize the continued influence of the United States in the region and the necessity to deal with that fact realistically. If one or several of these Presidents should fail or be ousted from office, United States relations with their military-authoritarian or, alternatively, populist-nationalist successors are likely to be far more complicated.

The economic crisis has, of course, affected the several Latin American countries differently. Bolivia has been in de facto default on its foreign loans for several years and is frequently referred to as a "basket case," or a "bottomless pit." Its largest source of earnings is cocaine; foreign assistance is also critical to its survival. The two are interrelated. In July, 1986, when the United States sent military transports and helicopters into Bolivia to help—unsuccessfully as it turned out—destroy the coca crop, the Bolivian ambassador to the United States insisted that the United States must make up in foreign assistance what it had

destroyed in coca earnings; simultaneously, he argued that no coca crops had been destroyed. He spoke without blanching and without Congress or the press noting the contradiction.

Proud Peru, once the viceregal center of the Spanish authority on the continent, is also in de facto default and has enough funds in its treasury to last, perhaps, a few more months. Peru is also being referred to as a basket case and "another Bolivia," a label that in Peru carries enormous connotations, all of them negative.

Chile has begun to pull out of its economic slump; its problems are chiefly political rather than economic, though the economic recovery cannot be anything but helpful to General Augusto Pinochet's pariah regime. In Colombia, cocaine has replaced coffee as the chief export crop, but Colombia never contracted the same onerous foreign loans as its neighbors and hence is in less trouble than they are. The oil exporters, Ecuador and Venezuela, have suffered severely along with Mexico as petroleum profits have plummeted, with profound implications for their social programs and future political stability. Uruguay has begun to recover from the longtime decline in its terms of trade, which also brought on a severe political crisis. Paraguay, a nineteenth-century society, has been more immune than most to international economic crisis and has prospered considerably under General Alfredo Stroessner, but is also feeling the pinch as well as the pressures for change.

The wealth of Argentina, an incredibly rich country by the standards of its neighbors, is probably far greater than official figures indicate. Argentina is virtually self-sufficient agriculturally, industrially, and in terms of its petroleum resources, with sources (grain, beef, petroleum) of readily available foreign exchange, and it is strategically important to the United States. Thus it is one of the few countries (maybe the only country) in Latin America that might sensibly default on its foreign debt. But Argentina does not wish to be cast out of the ranks of "civilized" (in this case, trustworthy) nations; it understands the severe economic consequences of an outright default; and it has learned to "manage" its debt even if little interest and no principal are ever repaid.

Among the South American nations, Brazil has been the developmental success story of the last two years. With a growth rate of 8 to 9 percent, Brazil has again almost achieved the "miracle" development of the mid-1970's. Brazil intends to grow out of the economic crisis in which the other countries are still mired, and its sometimes heady ambition (combined with intense nationalism) constitutes a potent brew.

The countries of the region have thus been differently affected by the economic downturn of the last half decade; the degree of their recovery also varies. The key to economic recovery in South America is

the performance of the United States economy and, second, the performance of the OECD (Organization for Economic Cooperation and Development) countries. That is why the dominant issues in United States–South American relations are not political but economic: trade, the United States budget deficit and the threat of United States protectionism that keeps out Latin American products.

It usually takes a year or two for a United States recession to be felt in South America; and it requires about the same time for the full effects of a United States recovery to begin trickling down to the region. Since the United States recovery began in late 1983, 1985 and 1986 were better years for South America than the previous four. But the United States recovery is still faltering; the United States deficit is soaking up Latin American investment capital; and the OECD recovery has not been impressive. In addition, countries like Argentina and Brazil, with their well-developed infrastructure and capacity to export quickly and massively, are in better positions to take advantage of the global economic recovery of the last three years than are others. Hence, while the world economic recovery makes the outlook promising for some South American countries, others are still in the doldrums.

THE DEBT ISSUE

The debt is still a major problem, but clever South American leaders have learned to manage or “service” it quite well. “Servicing the debt” means that only a trickle of interest and none of the principal will ever be paid back. That way, the South American countries can avoid default and all the onerous implications of that step; the banks can maintain the fiction that the debt need not be entirely written off as uncollectable (while they increasingly convert their foreign debt holdings to paper and sell off as much as they can); the United States can avoid taking the politically unpalatable steps of having to bail out the banks or the South American countries or both; and the international financial system can, perhaps, be rescued. This is a complex gamble, fraught with dangers, hanging by very slender threads; but so far the strategy has been successful. Under the so-called Baker plan*, some further funds and political commitments have been pumped into the system, perhaps just enough to tide Latin America over, or to pass the problem on to President Ronald Reagan’s successor.

The severity of a country’s debt crisis is closely related to the response a country has made. Peru, which is in desperate financial shape, has taken the most radical position. Argentina and Brazil have fol-

lowed a more moderate course, although here too the domestic pressures for repudiation are rising. Size is also an important factor: where the debt is comparatively small (as in Bolivia and Peru), the banks have largely ignored what amounts to de facto repudiation; but in the big debtors, like Argentina or Brazil, the banks have been both more cautious and more forthcoming.

The South American countries’ responses to the austerity measures imposed by the International Monetary Fund (IMF) have similarly varied considerably. The IMF is widely viewed as the bogeyman of South America, forcing the countries of the region to impose severe austerity in order to pay back earlier debts. The IMF understands that, in addition to using its clout to pry structural changes out of various reluctant South American countries, it must serve as the “tough cop”; the IMF also serves as an outlet for hatred that might otherwise be directed against the current South American governments. In some countries, IMF belt-tightening has produced severe hardships, which are perhaps inevitable if South America is ever to recover from its economic slump; but in others both the debt and the austerity have been managed well. In Argentina, for a time, austerity even proved to be popular politically. Again, clever South American Presidents have learned to manage the austerity as they have managed the debt.

The issues are, of course, serious, but there are also elaborate dances and political maneuvering below the surface. The IMF and the Reagan administration have insisted that in return for longer grace periods and greater infusions of capital, the South American countries must reduce corruption, sell off their inefficient public sectors, and allow free markets to operate. Some South American leaders actually agree with this agenda; still others have seen the need to do something to reduce their corrupt, bloated, inefficient public sectors. But the dominant tendency has been to clean up their local acts just enough to qualify for new loans—and then revert to past practices. In some countries, public sector employees may be fired one day and rehired “quietly” the next by a different agency, so that the statistics on reducing the public sector are encouraging. Or public sector companies may be sold into the “private sector,” which often consists of large holding companies inseparable from the government, only to be renationalized later. Many of these actions are for external (IMF, Reagan administration) consumption, but it remains unclear how much has fundamentally changed in the process. Most South American countries have become quite adept at playing these games. And in the process, some limited change does at times occur. Nonetheless, throughout South America, statism remains strong.

Democracy and human rights have been faring quite well on the South American continent—in fact, better

*A proposal by United States Treasury Secretary James Baker that the Western industrialized countries and international lending institutions increase their loans to debtor nations if they adopt “free-market” economic policies.

than expected, given the continuing economic crisis. There are two main exceptions—Chile and Paraguay (plus Suriname)—and in several countries democracy is on shaky grounds. From the point of view of United States–South American relations, democracy and an improved human rights situation serve to benefit both the South American countries themselves and United States interests in the area.

Paraguay is evolving from an old-fashioned caudillo dictatorship into a more modern society, with all the diverse groups and pressures that implies. General Alfredo Stroessner, who came to power in 1954, has by now surpassed the Dominican Republic's Generalissimo Rafael Trujillo as the longest-ruling dictator in twentieth-century Latin America. Since there is a certain perverse pride among dictators, now that he has achieved the record it may be appropriate for Stroessner to step aside—though whether that action would lead to genuine democracy or only to a more institutionalized and probably somewhat more open form of authoritarianism cannot be ascertained at this time. Paraguay's earlier experiences with democracy were not particularly happy.

Chile under Pinochet has become an outcast among nations. While Pinochet has declared his intention to retain power through 1989 and perhaps to the end of the century, the base of support that he initially enjoyed has steadily dwindled, and the actuarial tables may come into play before that time. It is these factors—Pinochet's dwindling base of support, the uncertain (until 1986) performance of the Chilean economy, Pinochet's failure to achieve popular backing for the institutional changes he initiated, and fear that the Communists might dominate the opposition—that led the United States to change its policy toward Chile. The United States, which had once supported the Pinochet government while hardly condoning its bloody excesses, is now urging Pinochet to step aside, share power, or hold democratic elections. Presumably a more moderate regime would come to power, democratic, anti-Communist and pro-United States. It is a familiar scenario but whether it will work in Chile is not clear.

Other South American democracies are shaky. Bolivia is torn by wrenching poverty, enormous social and economic divisions, drug traffickers and gunrunners of various kinds, and a powerful praetorian past. Yet its democracy has managed to survive so far against what many Bolivia experts would call overwhelming odds.

Peru's democracy may also be torn apart, with major implications for United States foreign policy. Democracy in Peru is under attack from both the left and the right, with extremists in the wings maneuvering to seize power. With the dissolution of former President Fernando Belaúnde Terry's Acción Popular, there is no organized alternative on the center-right, leaving

the Communist party as the only alternative to President Alan García Pérez and his American Popular Revolutionary Alliance (APRA)—a potentially dangerous situation. There are rumblings of restiveness in the military while the Khmer Rouge-like guerrilla movement Sendero Luminoso (Shining Path) spreads terrorism in both the countryside and the cities. The fact that Peru, like Bolivia, is all but bankrupt does not improve its prospects. Moreover García, who has bought some time domestically with his rhetorical posturing and anti-American pronouncements, has by the same token stretched United States patience almost to the breaking point. Peru remains a very dangerous high-wire act.

In Ecuador, León Febres Cordero is the South American President who is most closely attuned to President Reagan's agenda of greater attention to private enterprise and traditional values. While popular in Washington, he has not proved equally popular at home; he has refused to play by the usual Ecuadorian rules and has thereby squandered a great deal of his earlier support.

Colombia remains an elite-directed democracy, most likely to muddle through its present crisis as it has in the past. There is the danger, however, that Colombia's democracy may be corrupted or even destroyed by drugs. Democracy in Colombia is under attack by both left-wing guerrillas and powerful drug kings, with the two frequently working in collusion. Overreactions by the military sometimes serve to polarize the situation.

In Venezuela, the major problem has been the precipitous drop in oil prices. As one of the world's leading producers, Venezuela is subject to the vagaries of international market prices, which have recently plunged from \$30 per barrel to less than \$10. Over the last quarter-century, Venezuela has built up a vast system of patronage positions and elaborate social programs. But now that Venezuela cannot afford such extravagance, greater tensions and fissures are beginning to appear.

Brazil's democracy is robust and yet still moderate, becoming better institutionalized but still transitory. President José Sarney was elected by indirect means and only became President because of President-elect Tancredo Neves's fatal illness. This left the transition to democracy still incomplete, in the eyes of many Brazilians. There are powerful populist pressures for change that would defy the United States and declare a moratorium on the debt. And there are strong influ-

(Continued on page 35)

Howard J. Wiarda is also associated with the American Enterprise Institute in Washington, D.C. He has written extensively on Latin America and is completing a book for the Twentieth Century Fund on democracy in Latin America.

Argentina's economy continues to suffer, but its political prospects are bright. "No one doubts that Alfonsín will become the first elected President to complete his term since Juan Perón managed the feat in 1951. Most Argentines prefer democracy to authoritarianism, although it will be some time, if ever, before they are convinced that they can make democracy work to everyone's satisfaction."

Readjusting to Democracy in Argentina

BY GARY W. WYNIA

William Kenan Professor of Latin American Politics, Carleton College

NOTHING comes easily in Argentina anymore. Servicing a record foreign debt costs the country half its export earnings annually; halting inflation requires unprecedented austerity; and constitutional democracy demands unaccustomed self-discipline. Yet after 1,000 days in office President Raúl Alfonsín remains a popular President. Whatever their frustrations, Argentines appreciate his steady, leisurely pace and the way it has helped them readjust gradually to democratic government without violent confrontations.

Alfonsín was not always so popular, however. In 1985, when prices were rising one percent a day, public confidence in his economic leadership plummeted. Frustrated and embarrassed, he replaced his Radical party economic team with less partisan economists headed by Juan Sourrouille. Then, in June, he announced the now famous Austral Plan with its wage and price controls, tighter fiscal and monetary policies, a new currency, and exchange controls. It was an immediate success, cutting monthly price increases from 30 percent to around 3 percent by year's end. But it was costly: the gross national product (GNP) fell by 4.4 percent and investment by 16.8 percent in 1985.

Sourrouille wanted to restore growth quickly with increases in petroleum and grain exports, but his timing could not have been worse; the prices of both oil and grain collapsed in 1985. To make matters worse, Argentina's wheat crop in 1986 was 33 percent smaller than the crop the previous year, because of heavy flooding, which caused total grain export income to fall by 24 percent.¹

United States President Ronald Reagan's offer of subsidized grain sales to the Soviet Union in August,

¹United States Department of Agriculture, *Western Hemisphere: Situation and Outlook* (Washington, D.C., June, 1986), pp. 13-16.

²Actually, the United States proposal was too small to deprive Argentina of its Soviet market. But that was not the real issue; what upset Argentines was the idea that their creditors would consider making life more difficult for them after they had already paid such a high price to meet their debt obligations.

1986, added to Argentina's frustration. At a time when Argentina's creditors were urging economic austerity and more Argentine exports to finance interest payments on Argentina's foreign debt, President Reagan threatened to make it harder to accomplish these aims.² It mattered little to Argentines that the Soviet Union refused President Reagan's offer or that it was made primarily to help Republican senators win reelection in the Midwest. The effect was an affront to Argentina, and Alfonsín condemned it. To have done otherwise would have damaged his reputation at home.

Sourrouille's long-range objectives are not very different from those pursued by authorities since 1976. It is the consensus that Argentina must export far more in order to grow economically, and to do that its heavily protected industries must become more competitive in international markets. Sourrouille's methods for accomplishing the feat are far less drastic than were those of his military predecessors, whose "shock treatment," with its sudden tariff reductions and heavy borrowing abroad to support a grossly overvalued currency, has been replaced by an approach that relies on less spectacular tax and exchange incentives and new trade agreements to promote industrial exports.

The Austral Plan's first phase ended in March, 1986, when it became obvious that, after bringing inflation down, price and wage controls had to be relaxed in order to stimulate growth. Without any fanfare, authorities replaced the price freeze with a system of administered prices that were fixed in accordance with the cost of inputs. Simultaneously, maximum and minimum wage guidelines were set, and unions were told to negotiate directly with employers. The government also decreed a small devaluation of the austral and raised natural gas, electricity and gasoline prices. It promised to promote exports with tax and other incentives, to reactivate construction, to modernize some public enterprises and transfer others to the private sector, though by year's end only export promotion was under way.

Unfortunately, renewed economic growth was accompanied by renewed inflation. At first prices rose

slowly; then, in July, they shot up 6.8 percent, bringing the total price increase for the first seven months of 1986 to 33 percent, far above the 28 percent maximum that Alfonsín had forecast for the entire year. There was no single cause: new gasoline taxes, bottlenecks that kept supply below demand, higher salaries, successive currency devaluations and a surge in meat prices all contributed. But the 6.8 percent rise along with growth in the money supply that exceeded the 3 percent limit the government had set for itself kindled fears that prices were about to take off again.

Sourrouille did not want to show alarm, convinced that Argentines had to learn to live with occasional fluctuations; yet he feared that prolonged inaction might fuel panic. In the end Sourrouille gave in, and late in August he went on national television to announce the restoration of some controls and accelerated devaluations aimed at bringing down inflation before the end of the year. Simultaneously, he replaced Central Bank director Alfredo Concepción, the last of the Radical stalwarts in the economic cabinet, with his close colleague, economist José Luis Machinea.³

Concepción's departure marked an important turning point in the Alfonsín administration. He had begun in 1983 with a Cabinet staffed largely by Radical party *históricos*, politicians over the age of 50 who had signed up early in Alfonsín's campaign for the presidential nomination.⁴ But over the next three years the *históricos* were gradually replaced by technocrats like Sourrouille and Machinea, who had no strong ties to Radicalism, as well as Radicals from the Junta Coordinadora Nacional, a clique created a decade before by young Radicals who backed Alfonsín's candidacy and rose to the top with him.

Presidential secretary general Carlos Becerra, adviser Enrique Nosiglia, and deputy Marcelo Stubrin were the most prominent of the new generation in 1986. *Históricos* like Germán López denounced the shift, blaming the ambitious Coordinadora politicians, now in their thirties, for pushing their elders aside, but Alfonsín was unmoved by such protests. He wants a Radical party that can appeal to more voters than before, less identified with the party's highly partisan old guard and more attractive to new voters from all social classes, and he believes that the Coordinadora politicians can help him build such a party. Ironically,

³The Sourrouille team is largely American-educated. Machinea's doctorate in economics is from the University of Minnesota, Sourrouille's and Brodeshon's from Harvard, and Adolfo Canitrot's from Stanford.

⁴The departing *históricos* included Defense Ministers Raúl Borras and Roque Carranza, both of whom died in office, Economy Minister Bernardo Grinspun and Central Bank director Alfredo Concepción, who were demoted, and presidential secretary general and Defense Minister Germán López, who resigned.

⁵Senate elections will not be held until October, 1987, when one-third of the Senate seats will be up for election.

the once left-leaning young Radicals are arriving at the top at the moment that Alfonsín has moved to the right in his domestic policies. But he is in charge and they seem willing to trade conformity for power.

PARTY POLITICS

In November, 1985, the political year began with elections to fill half the 254 seats in the Chamber of Deputies. Going into the election, Alfonsín's Radicals held a slight majority in the Chamber and were eager to increase it, using the early success of the Austral Plan to attract more votes. It was also important to them to demonstrate that they could win without Alfonsín carrying them. The Peronists, on the other hand, needed to recover from their demotion to second place two years earlier when they received only 40 percent of the vote in the presidential election that Alfonsín won with 52 percent. Their recovery would be hindered, however, by squabbling within the party that sent competing slates of candidates into several districts.

The Radicals received 43 percent of the vote this time, 6 percent less than they had won in congressional races in 1983, but they celebrated the triumph as if it were a landslide since the Peronists finished a poor second with only 35 percent of the vote. Some middle class voters who had supported Alfonsín in 1983 in order to block Peronist Italo Luder had returned to their own, smaller parties, but enough Peronists shifted to the Radicals to give them victories in normally Peronist provinces like Santa Fe, Tucumán and Catamarca. The result was 1 more seat for the Radicals, bringing their total to 130, and 7 fewer for the Peronists, leaving them with 103, with the remaining 21 going to 10 minor parties. Only the Peronists' slight plurality in the Senate denied the Radicals complete control of the government.⁵

Voter preferences are changing, albeit slowly, but it is not yet clear where they will come to rest. For the time being, most Argentines want Alfonsín to supervise the creation of an effective constitutional government, but beyond that neither party enjoys much confidence. The Peronists remain disorganized and unappealing as a governing party to all but their hard core, and few are confident that the Radicals can govern effectively without Alfonsín.

Progress with democratic politics has not prevented efforts to reform the constitution in fundamental ways. Under discussion is a proposal to create an executive branch similar to the French executive, with a President and a Prime Minister dividing responsibilities. Another proposal would permit the reelection of Presidents. Alfonsín denies any intention to take advantage of the latter, should it be adopted, but that has not reduced hopes in his party that he will serve another six years after his term expires in 1989. The most spectacular proposal is Alfonsín's suggestion that the

national capital be moved to the little town of Viedma 500 miles to the south. Decentralization is his motive, but without the finances to support his pet project, no one in the bureaucracy has sold his home yet.

The future of party politics hinges to a large degree on how the Peronists put their humpty-dumpty back together again. Their failure to do so has given Alfonsín an enormous advantage, making the Radicals more powerful than they would be if they faced a unified Peronist opposition. That the Peronists should be so divided is not surprising; they never operated as a modern political party under the autocratic Juan Perón, and they are only now beginning to discover what it takes to create a national party organization. People of all ages and social classes claim membership in the party, yet their Peronism varies from old-fashioned populism tinged with authoritarianism to something resembling European social democracy. Attempts to sort it all out at party conventions in 1984 and 1985 were unsuccessful, leaving two large factions to compete for command of the party.

One, calling itself Renovación, claims a commitment to the party's democratization; it is led by deputies Antonio Cafiero in Buenos Aires province, Carlos Grosso in the capital, and Carlos Menem, governor of La Rioja province. Currently a majority of the Peronists in Congress are waving the Renovación banner. The other faction is less well organized, being a loose collection of regional party leaders, like the controversial neofascist Herminio Iglésias, and old-guard labor bosses like Lorenzo Miguel, most of whom fear that Renovación's emphasis on more grass-roots participation in the party will demolish their fiefdoms.

There is nothing orderly about the line-up of the two sides when struggles for power are under way. When Cafiero launched his campaign to elect delegates to the party's Buenos Aires provincial convention in mid-1986 to assure his nomination for governor in 1987, Renovación colleague Menem jumped ship and threw his support to Cafiero's opponents. Menem claimed "the pursuit of party unity" as his motive, but he really wanted to block Cafiero's ascendancy to the presidential nomination in 1989 via the Buenos Aires governorship. Should Cafiero succeed in his gubernatorial bid in 1987, the contest for party leadership will intensify, making it impossible to separate the party's reorganization from the plotting of presidential aspirants like Cafiero and Menem.

Divisions within the General Confederation of Labor (CGT) also persist. Many unions line up with one or the other of the party's two factions, but their differences come more from disagreements over the CGT's

direction than from party politics. It has taken the unions three years to begin the process of "normalization," which involves electing a national assembly, an executive committee and a secretary general. The delay results largely from an inability to create a winning coalition. The largest of the unions' three Peronist factions, known as the "62," is headed by metallurgical workers' chief Lorenzo Miguel and is supported by nearly 40 percent of the union delegates to the CGT; the "25" faction has about 26 percent, and a third faction led by acting CGT secretary general Saúl Ubaldini enjoys 23 percent. The rest are non-Peronists who favor either the Radicals or small parties on the left. Miguel wants to rebuild an old-fashioned "verticalist" organization controlled from the top; the "25" seek something more open to the rank and file; and Ubaldini, a newcomer to CGT leadership who has risen as a mediator between the other factions and is an outspoken critic of Alfonsín, wants to build his own winning coalition.

Disputes over its internal structure have not prevented the CGT from defending the working class against wage losses of nearly 30 percent caused by the Austral Plan.⁶ Still able to unite for general strikes, the CGT implemented three work stoppages during the first half of 1986. It won some concessions, but far fewer than it wanted. In April, Alfonsín allowed wage increases of nearly 30 percent, but he refused to concede to CGT demands for massive housing programs, the restoration of social funds to CGT control, a moratorium on foreign debt payments, and the nationalization of all bank deposits.⁷ Instead, he insisted that unions negotiate further wage increases with employers rather than the government, albeit within limits set by authorities; to his delight, nearly half the CGT's unions had done so by July.

Alfonsín sent labor legislation to Congress in August, 1986, that provoked opposition from both labor and management. Essentially, it sought to put into law the decentralization of labor relations already under way. To compensate labor unions for staying away from the CGT he offered them positions on corporate boards and access to company balance sheets. It was another Radical attempt to weaken the CGT as an organization, making it easier for authorities to implement economic policies without having to confront the CGT leaders at every turn. Peronists blocked Alfonsín's first labor reforms in the Senate two years earlier and they were no more receptive in August, 1986. A Radical victory in the 1987 Senate elections is necessary to turn the bill into law.

CIVILIAN AND MILITARY JUSTICE

The military officers who governed Argentina between 1976 and 1983 spent most of 1985 in court listening to testimony about their seizing and killing an estimated 9,000 persons during their reign. Eighty-

⁶See for example Ambito Financiero, *Suplemento Estadístico*, no. 24 (July, 1986), p. 28.

⁷These were presented in April in the CGT's 26-point *Convocatoria a la unidad nacional*; see *Somos*, April 6, 1986, p. 7.

three charges of homicide and 500 charges of illegal detention were filed against General Jorge Videla and Admiral Emilio Massera and lesser charges were brought against the other seven members of the three juntas.⁸ Their attorneys denied that they were criminals, insisting that what was seen in 1985 as criminal behavior was welcomed in 1976 by civilians as necessary to combat terrorism. But the judges did not agree, and just before the year ended they convicted five and acquitted four of the defendants. General Jorge Videla, President from 1976 until 1981, and fellow junta member Admiral Emilio Massera were given life sentences and General Roberto Viola, Videla's successor as President, was sentenced to serve 17 years in prison.

Three of the four who were acquitted by civilian judges went before a military tribunal a few months later where they were convicted for malfeasance during their leadership of the Malvinas (Falkland Islands) War. Admiral Jorge Anaya, the author of the invasion plan; was given 14 years, General Leopoldo Galtieri, 12, and air force Brigadier General Basilio Lami Dozo, 8. Today they are serving their terms with the others on military bases without their families, using the tennis courts and other facilities.

The armed forces are not pleased with the continuing prosecutions, but there is nothing they can do about them for the time being. Nor can they claim that they are being singled out for punishment. Late in 1985, the government extradited Mario Firmenich, the leader of the terrorist Montoneros, from Brazil. Currently, the government is preparing for his prosecution in 1987. And in July, 1986, the United States extradited right-wing Peronist José López Rega, notorious for the war he waged against the Montoneros and left-wing Peronists when he worked alongside Isabel Perón after she succeeded her husband in 1974. Soon he will be brought to trial for murder and embezzlement.

Alfonsín is trying to establish greater civilian control over the armed forces. He was not helped by the death of his first two ministers of defense, Raúl Borrás and Roque Carranza, both of whom died of natural causes, and the resignation of the third, Germán López, in 1986, but that has not prevented substantial progress. Already Alfonsín has reduced defense spending by nearly one-third, and he has cut the size of the draft in half.⁹ Combined with the military's continued post-war preoccupation with restoring its internal organization, these changes have left the armed forces politically weak, but not impotent.

⁸Other members of the juntas who were put on trial with the three Presidents were former navy chiefs Emilio Massera, Armando Lambruschini and Jorge Anaya, and former air force commanders Orlando Agosti, Omar Grafigna and Basilio Lami Dozo.

⁹*The New York Times*, June 12, 1986, p. 2.

Where there is breath there is life, as service chiefs reminded the nation when they were invited in mid-1986 to participate in congressional debates over a new defense law designed to clarify the respective powers of civilian and military authorities. Army Chief of Staff General Hector Río Erenú insisted that the military be given responsibility for domestic as well as external security, indicating a reluctance to trust civilian authorities to determine when counterinsurgency measures should be taken. Few legislators agree with him, but that did not make it any easier for them to decide exactly where to draw the line. Given the fact that laws seldom deter military coups, legislating on the matter might seem a waste of time, but Argentine democrats do not see it that way. If behavior is to be changed, beliefs about authority and its location must be altered, and debates leading to widely supported legislation are considered an integral part of the process.

SEEKING ECONOMIC ALLIES ABROAD

A new "realism" informs Argentine foreign policy. Alfonsín understands the public's opposition to the kind of adventurism that produced the embarrassing Malvinas tragedy. Argentines remain proud and continue to demand (to no avail) that Great Britain discuss the sovereignty issue, but rather than responding to their past defeat and current frustration by retreating from a world that has let them down, the Argentines have chosen to recognize their limitations and work within them.

Alfonsín dealt quickly with the dispute with Chile over islands in the Beagle Channel, accepting the Vatican's mediation and securing the treaty's approval in the Argentine Senate early in 1985 after mobilizing public opinion in a referendum that rejected nationalist calls for its defeat. With that issue out of the way, Alfonsín turned to economic issues, starting with the debt. He brought 10 other debtor nations in the region together, hoping to hammer out a common policy that would increase leverage with creditors. When little progress was made, he turned his attention to protesting unfair competition from the European Common Market and the United States, who had begun to subsidize their grain sales in the international market.

In mid-1986, Alfonsín traveled to Australia and New Zealand to launch an informal alliance dedicated to exposing the hypocrisy of free traders in the industrial nations. Then, in September, he went to the GATT (General Agreement on Tariffs and Trade) meetings

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Gary W. Wynia recently published *Argentina: Illusions and Realities* (New York: Holmes and Meier, 1986). He also wrote *The Politics of Latin American Development*, 2d ed. (New York: Cambridge University Press, 1983). Wynia spent August, 1986, in Buenos Aires.

"The Bolivian government struggles to end the economic crisis and to maintain a democratic political system. However, in spite of its initial political success, the Paz government faces mounting internal pressures even as its policy options become more limited."

Bolivia's Economic Crisis

BY JAMES MALLOY

Professor of Political Science, University of Pittsburgh

BOLIVIA today is in a state of acute crisis, perhaps the worst crisis in the nation's history. The present drama began in 1978. It was in that year that Bolivia began a tortuous process of trying to establish mass-based civil democratic rule after more than 30 years of authoritarian and quasi-authoritarian rule. Since then, Bolivia has lurched through a series of legal and de facto government arrangements that, until now, have not been able to provide an effective framework for democratic governance within which governments could come to terms with what has become a chronic economic crisis.

The economic crisis also began in 1978. As in other countries, the economic crisis was caused in part by international factors, particularly a sharp drop in prices for Bolivia's major export commodities. However, the crisis also had important internal causes, manifested in steadily declining growth rates, a burdensome debt, rising unemployment and declining per capita income. But perhaps nothing has signaled the crisis as much as a ruinous inflation that by 1985 was estimated to have reached 12,000 percent.

In some senses, Bolivia is not a unique case. Most Latin American countries are going through similar economic and political crises characterized by the need to stabilize economies while simultaneously trying to. What is unique about Bolivia is the extremity and chronic nature of its political and economic problems, which threaten to lock Bolivia into the unenviable role of the "sick man" of South America.

The roots of the present situation are traceable to the great revolutionary process initiated in Bolivia in 1952 by the Movimiento Nacionalista Revolucionario (MNR). While the MNR was able to revolutionize Bolivia, it failed either to establish a new system of governance that could contain the social forces, especially workers and peasants, mobilized by the revolution or to implement a new model of development within which Bolivia could modernize.

The major problem that confronted the MNR was the erroneous assumption that it could simultaneously promote a process of state-stimulated capitalist development and broad-based populist redistribution. Indeed, its attempt to do so led to an economic and

political crisis in the late 1950's and early 1960's, not at all unlike that confronting Bolivia today. Then, as now, attempts to build support politically by meeting popular demands for better living conditions clashed with the need perceived by both national and international decision makers to stabilize the economy by means of government-enforced austerity programs.

The crucial question that emerged was, which social groups would bear the brunt of the "costs" (restricted consumption) inherent in any economic model? It continues to be the key question today; and the central politics of Bolivia, like that of most other countries in the region, is what we might call the politics of "economic stabilization" (*paquetes económicos*).

Within Bolivia, as elsewhere, the costs of austerity programs tend to fall most heavily on the workers, the peasants and other popular groups. This fact is all but inherent in the logic of capitalist economic models, including Bolivia's state capitalism, a fact that is reinforced by the policies followed by agencies like the International Monetary Fund (IMF). This reality was and is particularly troublesome for the MNR, which historically has been a populist movement that politically mobilized the urban middle class, workers and peasants. The MNR assumed a commonality of interests among the three that proved illusory.

In 1956 and 1960, the MNR embarked on two internationally backed programs, first to stabilize the economy (the Eder plan) and then to rehabilitate the nation's tin industry (the Triangular plan). The cost allocations explicit in both set the MNR on a collision course with organized labor, pulled the party apart and led to a coup in 1964 that ousted President Víctor Paz Estenssoro and ended 12 years of single-party quasi-authoritarian rule by the MNR.

The coup of 1964 initiated a period of some 24 years during which Bolivia was ruled by harsh military-supported authoritarian governments. With the exception of two brief military populist governments between 1969 and 1971, the military-backed governments first under air force General René Barrientos (1964–1969) and later under army General Hugo Bánzer (1971–1978) seized on the state-capitalist model of the MNR and none too gently imposed it on Boliv-

ia's popular sectors. This led to the implacable resistance of organized labor and in the 1970's to the resistance of segments of the peasantry as well. Popular resistance often led by leftist political groups stiffened and reinforced the authoritarian nature of the military regimes.

The immediate backdrop of the current transition phase in Bolivia was the seven-year period of rule by the military-backed government of Hugo Bánzer, the longest period of rule by a single individual in recent Bolivian memory. In recognition of Bánzer's significance in all subsequent events, the period is referred to in Bolivia as the "Banzerato."

To some extent the Bánzer government reflected the general trend toward a new kind of "modernizing military regime" that proliferated in South America in the 1960's and 1970's. And at first the regime aped many of the characteristics said to be common to what were to be called bureaucratic authoritarian regimes, particularly in terms of the political exclusion of the popular sectors, a privileged position for local and international business interests and a strategic alliance between the military and civil technocratic elites drawn from the middle class. In Bolivia, however, all these characterizations were only superficially accurate. They masked the deeper process of ongoing decay in the nation's political institutions and fundamental long-term structural problems in the economy.

Bolivia nonetheless enjoyed an era of prosperity in the 1970's. As is common in extractive export-based economies, a "boom" mentality pervaded the economy, and resources flowed into banking, commerce, luxury construction and consumption and speculative agro-industry in the eastern departments, especially Santa Cruz. Growth was fueled by favorable world prices for minerals and oil, allowing both industries to post profits even though actual production was declining. Export earnings were supplemented by government-guaranteed external borrowing, the bulk of which went to maintain the growing state apparatus, loans to speculative agriculture, or financing the import bill; some borrowed funds were lost through capital flight.

The overall productive sectors of the economy continued a process of relative decline that had started in the 1960's. Thus when the international economy turned sour in the late 1970's, the pins were knocked out from under the Bolivian economy. Agro-industry and construction activities declined, leaving skeletons of buildings, bankrupt companies and a string of bad debts that had to be absorbed by the public sector. The decline in commodity prices exposed the structural weakness of the mining and oil-producing sectors. In the late 1970's, the Bolivian economy began a downward slide from which it has yet to recover, and there was little left from the boom years except a relatively massive foreign debt of close to \$3 billion.

THE POLITICAL LEGACY

In some ways, the political legacy was even more dramatic. The superficial growth of the 1970's was bought at a very high social price that fell mostly on the workers and peasants. However, the Bánzer government did not solve the key political issue: bringing key groups like organized labor into the system. In Bolivia, as elsewhere, repression proved inefficient and ineffective in the long run. Throughout Bánzer's tenure, the mining camps were like occupied foreign territories, and the regime merely added to the legacy of hatred and suspicion of organized labor toward the military and other social groups. Polarization and alienation spread to the peasantry, whose resistance to the government's policies evoked a major bloody confrontation in 1974.

There were, of course, winners, but they did not become a stable base of support for the Bánzer regime or the state capitalist development model. The major winners were components of the private sector, the urban middle class and the emergent eastern departments, especially Santa Cruz.

The economic model in Bolivia under Bánzer was really a neomercantilistic mode of state capitalism, in which individuals in the private sector benefited from personal prebends granted by Bánzer, not the private sector as such or some dominant capitalist class. While some attempts were made to institutionalize Bánzer's rule, the regime was in practice a highly personalized neopatrimonial system. Bánzer's hold on power turned on his ability to manipulate an increasingly Byzantine web of client networks that crossed class lines and bound individuals and factions directly to the quasi prince, Bánzer.

By the time Bánzer was pushed from office in 1978 by factions in the military, Bolivia was sliding into a crisis situation. The economy was showing severe strains, and the need for decisive government action was obvious.

Bolivia's national institutions were in a state of complete collapse. The armed forces, in particular, were in disarray, unable to provide a stable base of support for any regime. Indeed, factions in the military were anxious to retreat from direct responsibility for government power and turn it back to civilians, a process over which they had very little control. Civil society itself was riven by at least three powerful lines of conflict: class conflict around the issue of the costs of any economic strategy; an intense game of "ins" and "outs" involving a bewildering array of clientelistic factions; and the powerful centrifugal force of regionalism.

The formal transition began when Bánzer, under intense pressure from the United States, began to lift the blanket of political repression in preparation for elections called for July, 1978. Bánzer's intention to contest the elections as a presidential candidate was

brought up short when factions in the military forced him to back off and accept the official candidacy of General Juan Pereda Asbún.

The main opposition to the official candidate came from two offshoots of the MNR. Hernán Siles Zuazo, who represented the populist wing of the original MNR, formed a mixed coalition of populist and Marxist groups called the Popular Democratic Union (UDP). In turn, Víctor Paz Estenssoro built a coalition around the developmentalist wing of the MNR, which took the title of the Alliance of the MNR (AMNR). The central issues revolved around who could best resolve the looming economic crisis.

The elections of 1978 proved to be so ridden with fraud that a politically legitimate outcome was precluded. Before the courts could clear up the matter Pereda Asbún mounted a coup, dumped Bánzer and installed himself in the presidency. However, his time in office was short. On November 24, 1978, a faction of institutionalist officers ousted Pereda and installed General David Padilla, who promptly called for a new round of elections in July, 1979.

In these elections, no candidate won a majority, and the election was thrown to the newly elected Congress. Because of a complex system of proportional representation, the Congress was divided into a myriad of factions that were unable to forge a majority behind any of the three leading candidates: Siles (35.9 percent), Paz (35.8 percent), and Bánzer (14.8 percent). After several ballots the major political forces struck a deal in which Congress appointed another old MNR stalwart, Walter Guevara Arce, as interim President for one year.

Guevara lacked any real authority to govern and from the outset confronted a hostile Congress in which the major parties were more interested in jockeying for the next elections than in supporting the President they had created. The Byzantine maneuvering ended in November, 1979, by provoking a coup that unleashed a tragic chain of events. At the center of the storm was Colonel Natusch Busch, who held the palace during a month characterized by bloody street fighting between military units and civilian groups, especially workers. When the fighting ended, Congress and the military agreed to dump both Guevara and Natusch and install yet another interim government headed by another former MNR figure, Lydia Guéiler Tejeda. Her major charge was to hold office until new elections could be held in June, 1980.

THE 1980 ELECTION

The election of 1980 did not produce a winner with a clear majority, although Siles increased his plurality over Paz while Bánzer held his own. Again the election should have gone to Congress, where yet again the ability of the dual body to produce a winner was questionable. Before the matter could be sorted out,

General Luis García Meza's clique seized power through a bloody coup on July 17, 1980.

The García Meza government, which lasted for a little over a year, was one of the most brutal and corrupt governments in modern Bolivian history. Because of its open connections to cocaine trafficking and neo-Nazi paramilitary groups, the government quickly became an international outlaw, with little or no domestic or foreign support. The armed forces had clearly lost all organizational coherence and had degenerated into a congeries of armed kleptocrats all but openly looting the country.

The regime not only besmirched the integrity of the armed forces but it led all civil political elites to doubt their ability to trust or use the armed forces. The García Meza interlude, in effect, foreclosed the coup option at least in the short term and convinced most civil elites that some mode of democracy was their only option. This was particularly true of the elites of the private sector, who became a major force pushing for democratization.

After two further military governments, in October, 1982, the nation's political elites finally developed another political scheme to constitute a civil democratic government. The deal called for the convocation of the Congress elected in 1980 with the proviso that the legislature would name Siles as President.

When Hernán Siles was inaugurated on October 2, 1982, the context seemed promising but this was to prove illusory. The military had been discredited and there was a general sense of relief at the return of democracy; but the underlying structural contradictions and the multiple lines of conflict produced by them soon overwhelmed the Siles government.

The first problem to emerge involved what had become a built-in structural confrontation between the bicameral legislature and the executive. The primary responsibility for the economy fell to the executive, while Congress was oriented to articulate frustrated and pent-up popular demands. Moreover, the proportional representation system tended to recapitulate in the legislature the divisions in civil society. The Congress of 1980 was dominated largely by the opposition, which pivoted around Paz's MNR and Bánzer's Alianza Democrática Nacionalista (ADN).

To govern at all, Siles had to resort to executive decree. This brought charges of unconstitutional behavior from Congress. Throughout his tenure, Siles was in constant conflict with Congress. The central political issue of his presidency was the need to manage both the domestic and international sides of the economic crisis. Because of the disarray of the party system and the structural breach with Congress, Siles had to confront the highly fragmented and ideologically polarized civil society without any mediating structures. This was compounded when ideological

divisions as well as factional job politics led to the quick collapse of the UDP coalition. Early in Siles's presidency, the important Left Revolutionary Movement (MIR), whose leader, Jaime Paz Zamorra, was Vice President, abandoned the government. Siles then had to confront the anomaly of a Vice President conspiring against him with groups in Congress.

Any attempt to resolve the economic crisis put the government directly into the middle of the long-standing class conflict over costs that had come to pit the private sector and portions of the middle class against organized labor and some sectors of the peasantry. This conflict crystallized around two civil associations: the Confederation of Private Entrepreneurs (CEPB) and the Central Labor Confederation (COB). Both organizations put direct pressure on the executive and were able to achieve quasi-authoritative status to negotiate with the executive and to review policy.

The major political drama centered around six separate attempts by the Siles government to define and implement stabilization packages or *paquetes económicos*. Each time a similar cycle was played out. Under the pressure of external and internal circumstances the government would decree fairly strong stabilization measures to curtail popular consumption. The package would provoke the wrath of COB, which would stage strikes and demonstrations. Under the pressure of its only ostensible support group, the government would back off and decree adjustments like wage increases that would vitiate the austerity measures. This in turn would provoke negative responses from the CEPB, the IMF and Bolivia's creditors.

For all practical purposes the government was very quickly immobilized and unable to govern, especially in economic matters. The upshot was a steady decline in economic growth and a demand-driven inflation that, by 1984, was totally out of control.

The manifest weakness of the government was compounded by a growing image of corruption and inefficiency. Most disturbing were rumors and charges that government officials were involved in cocaine trafficking. Indeed, a major political crisis was precipitated in July and August, 1984, when a longtime Siles aide and friend, Rafael Otazo, revealed that at Siles's behest he had been involved in negotiations with Roberto Suárez, a reputed drug baron.

The opposition seized on the so-called Otazo affair to move against Siles. Their ploy was a movement to impeach. Confronted by the congressional intention to impeach him and bereft of all meaningful support, Siles capitulated and entered into complex negotiations with the opposition parties and the major interest groups. The result was an agreement to cut Siles's term short by a year and call new elections in July, 1985.

Although there was again a proliferation of political parties, the election of 1985 was mainly a battle between

a reinvigorated MNR led by Paz Estenssoro and the ADN headed by Bánzer. Thus there was little doubt that one of these two men, both long associated with antipopulist capital-accumulation policies, would be the next President. The labor left, led by COB, continued to denounce the process as an "electoral coup" by the right and tried frantically to block the elections, demonstrating again that elite commitments to democratic procedures were shallow.

The private sector, led by the CEPB, supported the electoral process because either outcome was acceptable. Indeed, the CEPB as such did not declare for either main candidate. Individual figures in the private sector signed up as direct backers and congressional candidates in the campaigns of both Paz and Bánzer. In general, the United States embassy headed by Ambassador Edwin Corr was optimistic and urged Siles to hold on and go down in history as the man who assured a democratic transition.

The campaign combined old-fashioned Bolivian factional politicking with an overlay of modern media campaigning imported from the United States, particularly by the ADN. When the balloting was over, Bánzer had won a slim plurality of 493,735 votes to Paz's 456,704. However, by means of deft maneuvering in Congress and by playing on the leftists' hatred of Bánzer, Paz was able to mobilize a congressional majority and, in effect, to win the election. After a tense few days the Bánzer forces made a historic decision to accept Paz's election even though they felt that the election had been stolen from them.

Paz, who was inaugurated on August 6, lost little time in moving to deal with what by then had become a catastrophic economic situation symbolized above all by Bolivia's hyperinflation. On August 29, Paz issued decree 21060, which imposed one of the most severe IMF-style austerity programs yet seen in South America. Decree 21060 embodied what the government called its "new economic policy," which, aside from the stabilization measures aimed at reducing consumption, contained policies aimed at two further goals: the opening of the economy to international and domestic market forces, and the reduction of the state apparatus while simultaneously bringing it under the control of the executive.

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James M. Malloy is chairman of the department of political science at the University of Pittsburgh. He is the author of *Bolivia: The Uncompleted Revolution, Authoritarianism and Corporatism in Latin America*, and *The Politics of Social Security in Brazil* (all published by the University of Pittsburgh Press, 1970, 1977 and 1979, respectively). Forthcoming is Malloy's edited collection on the transition to democracy in Latin America and his new book-length study of Bolivia's political economy between 1964 and 1985.

In his second year in office, Brazilian President José Sarney's "Cruzado Plan has undoubtedly helped the expansion of Brazil's economy. . . . However, politics can dim the prospects for Brazil's economic success."

Brazil's Cruzado Plan

BY EUL-SOO PANG

Director, Latin American Center, Colorado School of Mines
and

LAURA JARNAGIN

Assistant Research Professor of Humanities and Social Sciences, Colorado School of Mines

THE second year of President José Sarney's term found both President and populace settling into the bumps and grinds of democratic life. The government's economic stabilization plan, Plano Cruzado, introduced on March 1, proved to be an unwieldy instrument that had to be repeatedly fine-tuned. Meanwhile, the Brazilian Democratic Movement party (PMDB), which enjoyed a meteoric rise to national dominance in the wake of the military's withdrawal from power, managed to win a resounding landslide victory in the November, 1986, elections. However, a baffling rash of party-switching among politicians occurred in mid-May and again in mid-October, a scant month before the elections for representatives to the constituent assembly, governors, state legislators and aldermen.

Relations with the United States, in spite of Sarney's September visit to Washington, have remained icy. Both sides are still exchanging unyielding demands on the issues of Brazilian export subsidies, the protection of Brazil's personal and microcomputer market, and the restructuring of the external debt, which now stands at US\$105 billion.

In the first ten months of 1986, the Sarney government was afflicted by some 230 strikes by unions of every kind, ranging from one-day work stoppages to prolonged shutdowns and walkouts. The more silent subterfuge undertaken by cattlemen, dairy producers, and parts and components manufacturers has slowed the growth of the economy and has imposed daily hardships on the population. Shortages of beef, milk and other consumer goods became commonplace as of July.

The military high command has suffered open complaints from noncommissioned and junior officers about low salaries and exposés of its past sins against the civilian left. In mid-September, a captain was disciplined for having written an article in the newsweekly *Veja* about the low salaries of junior officers. Later that month, a full colonel was punished for seconding the

complaints of inadequate pay by the rank and file of his command, an unprecedented occurrence in the history of the modern Brazilian military. And the minister of the army stopped a government move to investigate the 1971 death of a former federal deputy who, the military insisted, was a Communist.¹

In his first year in office, Sarney was preoccupied with establishing his own public personality, valiantly attempting to stand out of the shadow of the late Tancredo Neves. The sudden fatal illness of the President-elect on the eve of his inauguration in 1985 had left Brazil stunned. Politicians feared that the military would not return to the barracks as promised. Many wondered whether the new civilian regime would engage in "revanchism" against the military, as the Alfonsín government did in Argentina. Thus, civilian political leaders had to select someone trusted by the military as the new President.

José Sarney was the perfect choice. Before 1964, when the military staged a coup against the leftist-leaning João Goulart regime, Sarney was a member of the right-wing National Democratic Union (UDN) party and a federal deputy. After the coup, he unabashedly supported the military regime. He was twice governor of his home state of Maranhão, federal deputy again, and then senator during the military regime. His penchant for party switching has become a joke among friends and foes. When the military instituted a new party system in 1967, Sarney moved to the pro-government National Renovating Alliance (ARENA), where he remained until 1979. When yet another reform took place in 1979, Sarney became one of the founders of the Social Democratic party (PDS), where he rose quickly to the rank of director and, eventually, president.

It was painful to watch Sarney's first year. A poet by avocation, the President resorted to lucubration to learn the basics of the national economy. Sarney also sought to change his image. Instead of a conservative, pro-military politician, he tried to become a moderately center-left democrat by receiving leaders of Brazil's Communist parties—the first Brazilian President

¹*Veja*, September 24, 1986.

to do so—and reviving diplomatic ties with Cuba. He talked tough about fiscal austerity and threatened to close down the sumptuous official residences of ministers. At the same time, he had to work with Cabinet ministers chosen by the late Tancredo. Ill at ease with presidential decision making, at times he signed decrees and executive orders without reading them with care.

It was not until the first part of 1986 that Sarney was on firm enough political ground to reshuffle two-thirds of his Cabinet. Even so, the Cabinet was not still entirely his: the military ministers stayed; Liberal Front party (PFL) chieftains retained their posts; the Social Democratic party (PDS) *cacique* from Bahia survived the reorganization; and a friend of Ulysses Guimarães (but a Sarney foe) stayed as minister of science and technology. Trying a political balancing act to survive and to give stability to the country, Sarney found it necessary to appoint a known leftist (some say a member of a clandestine Communist party) to the post of minister of agrarian reform.

Thus, the Cabinet lacked—and still lacks—ideological coherence. Its economic planning ministries are firmly in the hands of the PMDB's left-wing ideologues, many of whom are former antimilitary academics. They constitute the in-house "academic" left wing, which, incidentally, prefers the label "center-left." The ministries of mines and energy, communication, education, foreign affairs, and the executive branch's Gabinete Civil (the President's political adviser and chief of staff of the presidency) all belong to the in-house right wing (the "center-right"), the PFL. The rest of the ministries are held by various PMDB regional political chiefs or their appointees. It was this ministerial hodgepodge that had to prepare for the greatest economic, social and political change in decades by late February, 1986.

Sarney began his second year in office on a pessimistic note, but this soon turned into euphoria and hubris when the new economic policy was unveiled. Inflation, which reached over 230 percent in 1985, was running at the annual rate of 500 percent for 1986. The government's reactivation of economic growth programs forced it to commit more and more funds that it did not have or could not raise from external sources; this pushed the deficit into the stratosphere. Interest rates were likewise out of sight, and many manufacturing companies were making more profits in the money market than by selling their own

products. As a consequence, industrial investment fell.

Meanwhile, pressure from Washington and, to a lesser extent, from Japan and West Europe was being intensified in an effort to coerce the Sarney government to adopt a conservative growth or austerity policy, as advocated by the International Monetary Fund (IMF). When Latin American economies are based on state capitalism, austerity policies tend to provoke recession and invite social and political unrest, if not chaos. In Brazil's case, the country needed to expand its productivity and create jobs in order to increase exports, the sole source of foreign exchange for financing domestic programs and servicing the more than \$100-billion external debt. The economic policy inherited from General João Baptista de Figueiredo's regime—which had been obedient to the wishes of international bankers, Washington, and the IMF—had to be abandoned and a new policy instituted if the Sarney government were to pull Brazil out of economic recession and avoid the route so disastrously traveled by Mexico and Peru.² With an eye toward his own political survival and PMDB victories in the November, 1986, elections, Sarney had to gamble with a new policy.

FROM PLANO CRUZADO TO "CRUZÁGIO"

The Economic Stabilization Plan (Plano Cruzado or the Cruzado Plan) contained four basic components: the elimination of automatic monetary correction or indexation; a freeze on all prices and on the value of federal treasury notes (before March 1, 1986, these notes were known as ORTN's, or Readjustable National Treasury Obligations; after March 1, the term "readjustable" was dropped; the notes became OTN's); no indexation for contracts of a period of less than 12 months, except savings accounts, retirement pensions and related funds; and salary adjustments to be made according to six-month average purchasing power changes.³ Brazilians did not anticipate a major monetary reform as a key feature of the Plano Cruzado. The cruzado (Cz) replaced the cruzeiro (Cr) as the unit of currency and was valued at 1,000 times the old cruzeiro. The highest denomination of the old currency, a Cr\$100,000 note, was pegged at Cz\$100.

In addition to monetary reforms, the government also introduced several measures that might come back to haunt it. The United States dollar was valued at a fixed rate (Cz\$13.88 to US\$1.00) for at least one year (March 1, 1986, through February 29, 1987).^{*} An overnight freezing of prices across the board from raw materials to consumer goods, durables and services increased the real purchasing power of the cruzado, setting off a consumption orgy. Savings institutions no longer offered interest rates as high as before, and people began to withdraw their savings to buy durables, to spend on vacations, and to indulge in many luxuries that they could not afford earlier.

*Nonetheless, in late October the government devalued the cruzado by 1.8 percent.

²Eul-Soo Pang, "Brazil's External Debt, Part I: The Outside View," *University Field Staff International Reports* (hereafter *UFSI Reports*), no. 37 (1984), and "Brazil's External Debt, Part II: The Inside View," *UFSI Reports*, no. 38 (1984).

³"O Brasil de moeda forte," *Conjuntura Econômica* (March, 1986), p. 11.

But enforcing the plan was difficult. Armed with the price table issued by the government, housewives turned out in legions to serve as self-appointed inspectors of price compliance in supermarkets, stores and service-oriented institutions. Consumers reported flagrant price violations to state and federal authorities. Supermarkets in general were accused of quickly remarking prices. A well-known men's boutique was caught repricing items and was fined and temporarily closed. Artisans, repairmen, small business establishments, and open fair vendors routinely gouged consumers. When they were caught, retailers blamed wholesalers who, in turn, blamed raw materials suppliers and farmers. Enforcement became impossible for the small staff of government inspectors, and in the major cities of São Paulo and Rio little has been done or can be done to keep the prices constant.

Suppliers of parts and components, raw materials and foodstuffs soon began to withhold their goods rather than to sell them at the fixed prices. Agiotage became so rampant and pervasive that one federal deputy called the Plano Cruzado "*Cruzágio*." To stay in business and in competition, department stores, boutiques, supermarkets and other retailers were willing to pay wholesalers "under the table" in order to secure merchandise when it was available. Others repackaged their old products to try to pass them off as "new and improved" (and therefore not to be found on the government's price tables) while raising the price. The best delivery time for a new Ford Escort RX, the most popular car, was 16 to 18 months. Because of the shortage of parts and components, Ford, General Motors, and other manufacturers were forced to grant their workers unscheduled furloughs while waiting in vain for the arrival of parts and components.⁴

By August, some businessmen had chosen to reduce their inventories rather than stay in business at a loss. Banks, accustomed to making enormous profits under the indexation and high interest rates permitted before March 1, began to lay off employees. During the first six months of the Plano Cruzado, at least 140,000 bank tellers and clerical staff were dismissed, when profits began to fall. But these were exceptions to the rule, and as a whole the economy was improving. Demand, however, soon outstripped supply. Buoyed by relative price stability, consumption for all types of goods and services shot up, first expanding the economy and employment and then creating shortages of foods, consumer durables and even basic necessities.

Agricultural and industrial interests began to clamor for an end to the freeze. Sarney and his advisers resisted. But so far the government has not been successful in convincing agropastoral producers to sell their herds and produce at fixed prices. Agricultural interests, the

backbone of the export economy and beneficiaries of the government subsidy trough for over two decades, have refused to cooperate. They break no laws by not slaughtering cattle, not milking cows, and not sending products to market. As a result, for the first time in two decades, supermarkets and butcher shops ran out of beef by mid-July. For a while, there was plenty of poultry, pork and processed meat products like sausages and dried jerkies, but eventually they were rendered in short supply by sheer demand. By August, restaurant waiters began to recite what they did not have on the menu. Even five-star hotels had no milk for Brazil's famous *café da manhã*. When milk became available temporarily, customers were limited to the quantity they could buy, and they often had to stand in lines for hours. Rumors ran rampant that sugar, coffee, rice and beans would soon be in short supply.

At first, the Sarney government responded with economic weapons. Interbrás, the trading company of the state petroleum monopoly (Petrobrás), was ordered to import meat. Sarney's advisers mistakenly thought that this would pressure the Brazilian stockmen to release their herds. Then when the European and American meat finally arrived, the quality and flavor displeased the Brazilian palate, and the Chernobyl-provoked contamination of Irish milk briefly frightened consumers. To exacerbate the situation, interminable bureaucratic procedures delayed the release of the imported foods. In the meantime, the cattlemen did not suffer. Major restaurants, butcher shops in upper class neighborhoods, and some hotels continued to receive their supplies through "special" arrangements. In late September, the government offered a series of incentives to the cattlemen to bring them back into the market: the sales tax on meat was reduced from 12 percent to 1 percent, increasing the profit margin and permitting any private firm to import all types of meats from abroad. At year's end, government sources were importing 30,000 tons of meat per month, far short of the estimated demand of 2.4 million tons per year. Resorting to another tack, the government also made a veiled threat that if stockmen did not return to the market, it might resort to confiscation.

Even as the adverse effects of the Plano Cruzado were becoming evident, however, Sarney's popularity reached 82.1 percent and Finance Minister Dilson Funaro's popularity reached 92.1 percent. People tended to look elsewhere for the culprits. If the agricultural interests refused to support Sarney (in August there was no milk in São Luís, Maranhão, the President's home state, where farmers refused to support their native son), politicians were not always in line with the government either. Ulysses Guimarães, the national president of PMDB, complained that he was not consulted about the Plano Cruzado before it was introduced, suggesting that he had little interest in

⁴Volkswagen do Brasil laid off 2,700 workers for this very reason.

granting the PMDB stamp of approval just to please Sarney and his advisers. In late July, the government attempted to fine-tune the plan by imposing surtaxes on new and used cars, gasoline, alcohol and overseas trips. PMDB chieftains, except Guimarães, made it known that such measures could be politically fatal to the party in an election year, and even some of Sarney's own ministers refused to back him.

GOOD TIDINGS FOR 1987

The Cruzado Plan has undoubtedly helped the expansion of Brazil's economy. By all calculations, the economy should grow by 7 to 8 percent. The trade surplus should surpass US\$15 billion, given Brazil's consistent monthly surplus on the current account of over \$1 billion since March. Funaro reports that Brazil was spending an average of US\$180 million per month to import new machinery, the effects of which should show up in increased efficiency and productivity in 1987 and 1988.⁵ The gross domestic product (GDP) may reach as high as \$250 billion, representing a full 35 percent of Latin America's \$635-billion GDP.⁶

However, politics can dim the prospects for Brazil's economic success. The Plano Cruzado has been under intense pressure from all sides. Although the Sarney government has been resisting, it has also been paying the price, in shortages of food and consumer goods. The July adjustment, including the establishment of the National Development Fund (FND), which will be created by the surtaxes, may become the victim of politics: the middle class will pay for most of the Cz\$200 billion to be collected over the next three years. The fund is to be used for a variety of social and economic programs, like 4.6 million new telephones, a 32 percent increase in electricity, 70 percent self-sufficiency in petroleum products, repairing and modernizing 2,500 kilometers of paved roads, an increase of 17 million tons of steel for domestic consumption, and improvement of the national rail and port systems.⁷ Managers of the FND fear that many of these developmental projects might become political pork barrels, as has been the case with previous similar projects like the Fund for Northeast Development (Finor). It remains to be seen whether Sarney is strong enough to resist the temptation of putting these enormous resources to political use.

The management of the external debt has been handled skillfully by Minister of Finance Dilson Funaro and president of the Central Bank Fernando Bracher. Brazil has been successful in resisting pressure from

Washington to abide by IMF austerity plans. Over \$31 billion of long-term debts have been renegotiated, and the fidelity of the Brazilian government to its international commitments has paid off. Led by Citibank, international creditors accepted Brazil's offer of extending terms for another seven years. Bankers lowered the spread, an up-front charge for risk collected by banks for loan renewal, to acknowledge the success of the Plano Cruzado and to sweeten the deal. Brazil will be spending less than 4 percent of its GDP in 1986 and only 2.5 percent in 1987 to service the debt. Brazil has yet to recapture its all-time gross domestic product high of \$238 billion of 1982, but it is not too far off that mark. The projected GDP for 1987 is \$275.7 billion, an increase of \$41 billion over the 1986 figure by Brazilian calculations and \$25 billion over by an Inter-American Development Bank figure.

However, the ultimate success of Sarney's economic policy, a foundation for Brazil's democracy, is still in doubt. *Exame*, an economic-financial journal, sponsored a panel of businessmen, industrialists, and academics to review the principal factors that might contribute to the demise of the Cruzado Plan. First among them was the public deficit, which by the end of 1986 stood at Cz\$127 trillion, followed by pressure groups, excess consumption demand and the external debt.⁸

AGGRAVATING BILATERAL RELATIONS

Bilateral relations between the United States and Brazil have not helped Sarney in his effort to consolidate a political democracy. The greatest turbulence in United States-Brazilian relations over the past two years has been Brazil's reserve of its domestic market for its own computer and peripheral manufacturers. It is interesting to note that the national reserve for informatics policy was originally inspired by the military. Yet the most ardent defender of this policy has been the Brazilian left. As the issue has rallied both the left and right, it has also divided the nation.

The Informatics Law of 1982 is not without controversy and domestic opponents. The Special Secretariat of Informatics (SEI, an acronym that coincidentally means "I know" in Portuguese) used to be part of the military-dominated National Security Council. After Sarney came to power, SEI was transferred to the new Ministry of Science and Technology. Its bureaucracy is a mixture of nationalistic military and civilian technocrats. Under the law, SEI

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Eul-Soo Pang is currently working on the Brazilian parastatals and their role in economic development during the military government (1964-1985). **Laura Jarnagin** is researching the impact of the capitalist modern world-system on nineteenth-century American migration to Brazil.

⁵*Istoé*, July 30, 1986.

⁶Inter-American Development Bank, *Economic and Social Progress in Latin America. 1986 Report* (Washington, D.C., 1986), pp. 17, 394.

⁷*Istoé*, July 30, 1986.

⁸*Ibid.*

"Today, with the democratic opposition intimidated and the official election process well under way, Pinochet has apparently won the battle to remain in office through 1989. With each passing protest, the popular street chant heralding the regime's imminent demise—"Y va a caer!" (It's going to fall!)—seems more and more like wishful thinking."

Pinochet's Grip on Chile

BY PAMELA CONSTABLE

Latin America Correspondent, Boston Globe

CHILEAN President Augusto Pinochet, who survived a spectacular terrorist attack September 6, 1986, continues to defy the democratic opponents who have been attempting since 1983 to speed Chile's transition to civilian rule. Using a combination of stepped-up military repression and shrewd political maneuvering, the resilient 70-year-old general has benefited from floundering opposition leadership, partial economic recovery, public apathy and increasing leftist violence. As a result, Pinochet now seems likely to remain in power at least through 1989, when his current term expires.

On one level, the assassination attempt—the first on Pinochet's life since the coup that brought him to power in September, 1973—was a political godsend for the general. In previous weeks, the general had boosted his unofficial reelection campaign for 1989 by publicizing the discovery of large hidden arsenals, described by officials as a revolutionary war chest. Coming so soon afterward, the attack seemed to vindicate his repeated warnings of a terrorist threat from the left and his pronouncements that only continued military rule could protect the country from a resurgence of the Marxist left that had managed to win national office, for the first time in Latin American history, with the election of President Salvador Allende Gossens in 1970. Within a day of the attack, Pinochet appeared on state television, brandishing his bandaged left hand and declaring that his government was fighting a "war between democracy and chaos."

In reality, Pinochet saw the assault as an excuse to crack down on left-wing terrorists and to renew repressive measures against a broad range of opponents whom he had been treating with increased tolerance in the preceding months. Shortly after the attack, the dictator declared a state of siege—reportedly against the advice of senior military aides—that permitted the government to arrest, banish or exile individuals without charge, censor the press, ban public meetings and impose curfews. Compared to the state of siege that

had been invoked between November, 1984, and June, 1985, the 1986 siege featured ominous new elements: resurgent paramilitary intimidation and execution not acknowledged by the government.

During the first few days, the regime ordered dozens of house-to-house raids, deported three left-leaning priests long active in the Santiago shantytowns, suspended six opposition publications, including the centrist magazine *Hoy*, and detained 14 leftist leaders, among them Ricardo Lagos, an internationally respected economist and official of the moderate wing of the Socialist party. At the same time, teams of armed and unidentified men broke into homes, hunting down and dragging off four leftists, including Juan Carrasco, an editor at Chile's largest-circulation magazine, *Andlisis*. Later, Carrasco and the other three were found slain.

Pinochet also viewed the assassination attempt as a way to recoup support among the armed forces, which had been showing increasing signs of dissent from his plan to succeed himself in office after 1989. In the past, Pinochet had relied on his powers of hierarchical reward and punishment to keep the military in line, holding even senior officers on a tight leash by promoting loyalists and retiring critics at will. Adding frequent doses of anti-Communist rhetoric and reminders of the judicial humiliation of Argentine officers linked to human rights abuses before the return to civilian rule in 1983, Pinochet calculated that when push came to shove, the officer corps would follow its commander in chief.¹

During the past year, several prominent officers, notably General Fernando Matthei, commander of the air force and a member of the ruling junta, had spoken out periodically against the prospect of indefinite military rule and had called on the government to resume talks with civilian leaders. The talks had broken down in 1983 and subsequently had been flatly rejected by Pinochet. Several top-ranked army generals had reportedly been discussing how to persuade Pinochet not to run for office in 1989, and had been disturbed at the general's increasing propensity to use force.

In July, both supporters and opponents of the regime were alarmed by the gruesome burning death of

¹For a more detailed treatment of Pinochet's relations with the military, see Arturo A. Valenzuela and J. Samuel Valenzuela, eds., *Military Rule in Chile: Dictatorship and Oppositions* (Baltimore: Johns Hopkins University Press, 1986).

19-year-old Rodrigo Rojas de Negri. The son of a leftist exile in Washington, D.C., Rojas was visiting Chile during a series of street protests on July 2, when he and a group of youthful demonstrators were stopped by an army patrol, possibly while carrying materials to start bonfires. According to witnesses, Rojas and a companion, Carmen Gloria Quintana, were doused with flammable liquid and set afire by the soldiers. Rojas died several days later and Quintana was severely burned.

The incident, which aroused strong criticism abroad, set off a telling squabble within the armed forces. Some of the evidence against the soldiers was provided by the national police, an unusual breach of regime solidarity not totally explained by interagency rivalries. After the army turned a number of soldiers over to a civilian prosecutor, the prosecutor ruled that the burnings had been accidental. A three-member military court then overruled him and charged the army squad's commanding officer with criminal negligence, with the army judge dissenting.

While the assassination attempt enabled Pinochet to rally the troops temporarily, it did not succeed in healing the growing malaise in the navy, police and air force—services not directly under Pinochet's control. A number of officers continued to worry that the dictator's intransigence was becoming a liability to the future of the armed forces. Some officers were concerned at Pinochet's overreaction to the assassination attempt, and junta members reportedly persuaded him to "flexibilize" the state of siege, release prominent prisoners like Lagos, and drop some of the more extreme measures he had ordered, including scrapping political laws being prepared by a government commission.

By early October, three junta members had called again for dialogue with the opposition, and General Matthei declared such talks were needed to "fulfill the wishes of the immense majority of Chileans who want a peaceful solution." The same day, however, Pinochet replaced the army representative to the junta—the only member he is empowered to switch—with hardliner General Humberto Gordon Rubio, head of the secret police. Then he announced the retirement of nine senior officers, including Generals Gastón Frez and Luis Danús, respected and independent-minded army generals. Instead of listening to his constructive critics, the President once again signaled his determination to retain an iron grip over his most important power base.

THE OPPOSITION

For the democratic opposition, the wave of repression unleashed in September was only one in a series of reverses that had been accumulating since 1983, when initial talks between regime officials and civilian leaders collapsed. In August, 1985, 11 parties from

moderate socialists to traditional conservatives had joined forces to sign the National Accord for Full Transition to Democracy, which urged immediate and long-range reforms and outlined compromises in a number of sensitive areas, like control of private property, for a future civilian government. Relying on a time-tested strategy of indifference, Pinochet flatly rejected the proposal. Nine months later, in April, 1986, when a group of 18 civic groups, labor unions and professional associations formed the Assembly of Civility and presented the regime with a list of demands, the response was identical.

Floundering in the power vacuum that resulted from these systematic rejections, the opposition remained weakened by a number of perennial internal arguments. With their mutual suspicions fanned by government rhetoric and their claims to leadership impossible to prove because of legal prohibitions on party activity, political leaders across the spectrum became trapped between competing desires: the immediate, instinctive need to outdo their rivals, and the long-term, rational need to band together to tip the scales of power against Pinochet. By the fall of 1986, many opposition leaders privately conceded that Pinochet was likely to remain in office at least three more years.

Among conservatives, many of whom dislike military rule but are equally appalled by violent protest and alarmed at the prospect of a return to socialist domination, the choice between joining the opposition openly and tolerating Pinochet quietly has been difficult. The inclusion of two important rightist groups, the National party and the National Union party, in the National Accord gave the opposition new clout and credibility with the armed forces, but conservatives remain skittish about joining forces with the socialist left; thus their loyalty to the opposition has remained tenuous.

In principle, many conservatives have come to regard Pinochet's rule as more of a lure than a deterrent to leftist extremism. But even before the arms discoveries and the assassination attempt, the right had hindered efforts like the National Accord by refusing to deal with any parties that accepted a role for the Marxist left. The events of September made them even more vulnerable to regime charges of an unpatriotic alliance with suspect groups. During 1986, National Union leaders made several independent approaches to the armed forces, angering other opposition parties and diluting their unity.

The center, dominated by the large and amorphous group of Christian Democrats, had been increasingly plagued by two problems: personality disputes among its many leaders, and a strategic split between progressive militants—nicknamed the "long-haired" faction, who favored an alliance with the left and its tactics of labor strikes and street protests, and more

traditional members—the “pot-bellied” faction, who preferred persuasion and petition to eliminate Pinochet. One group was convinced that Pinochet would never concede unless he were forced out; the other was convinced he would never concede to force.

The Christian Democrats, members of a reformist and multiclass party with close ties to the Roman Catholic Church, were a dominant factor behind the National Accord and a logical bridge for opposition forces. They were also a comfortable choice for United States backing; Washington had promoted the Christian Democratic movement throughout Latin America in the 1960's. But instead of capitalizing on this potential, party leaders could not live down the bitter divisions created by the disastrous Allende years and the coup. Torn between left and right, they tried to appease constituents on both sides of the party, and thus aroused everyone's enmity.

Equally debilitating are the divisions among the Chilean left, which bore the brunt of repression from the first days of the dictatorship and which lost hundreds of leaders to firing squads, prisons, disappearance and exile. Today the left is splintered and incoherent, with at least a dozen personal and ideological factions and with an even more fundamental split between the moderate socialists who favor non-violent protest and have joined the National Accord, and the Marxist-Leninist groups, who have left open the option of armed insurrection.

In 1980, after decades of election-oriented politics and seven years of brutal military persecution, the Communist party switched to a strategy of disruptive violence. By 1986, small armed revolutionary groups had launched over 2,000 bombing attacks, generally confined to power generators and other public property. Then in August, the government reported that it had uncovered eight revolutionary arsenals containing up to 70 tons of weapons. At the time, many members of the democratic opposition suggested that the government had exaggerated the discoveries. But with the September 6 attack on Pinochet, the revolutionary left leaped squarely over the line from sabotage to guerrilla war and shattered opposition hopes of salvaging Chile's Marxist parties from a snowballing logic of violence.

For the past three years, Pinochet and his aides have devoted extraordinary efforts to blurring the distinction between the extreme and the nonviolent left, and the clear loser has been the moderate Socialist party. For their efforts to back the National Accord, the Socialists have been increasingly perceived by impoverished urban supporters as making too many concessions to the government. For their refusal to disavow entirely the Communist party's role in government, they have been increasingly viewed by mid-

dle class moderates—who were dismayed and outraged by the assassination attempt—as dangerously radical.

A NONVIOLENT SOCIETY

With political leadership in disarray, civilian commitment to the opposition had diminished noticeably by mid-1986. One reason was sheer fatigue. After three years of regular street protests and labor strikes, with no signs of relenting by the regime, it became harder and harder to convince people to attend yet another rally, where they might be clubbed, teargassed, or at the very least docked a day's pay. Chile is by tradition an orderly, nonviolent society, and even before the assassination attempt many Chileans were disturbed by the hundreds of left-wing bombings.

In May, a surprising poll published by a respected, socialist-oriented research institute in Santiago showed that a majority of Chileans did not even favor political graffiti, let alone disruptive demonstrations, as a means of expressing opposition to the government. Most people polled saw Chile's economic problems as far more pressing than human rights violations or the lack of freedom under dictatorship. Many said they did not trust civilian politicians of any stripe, and, at least for the near future, most appeared resigned to continued military rule.²

During the spring of 1986, when a number of labor unions and civic groups formed the Assembly of Civility, organizers hoped to offer an alternative to political opposition parties tainted by infighting, too many protests and little apparent success. But when the groups issued a joint demand for a swifter democratic transition, initially enthusiastic public response to their call for street demonstrations was short-lived. The government further diffused their impact by arguing that the Assembly was simply a front for a Communist-Christian Democratic alliance. During the July protests in support of the proposal, the government simply arrested all the Assembly's major leaders, leaving the group without spokesmen or ralliers.

Another reason for the failure of Chileans to rise up against the military regime has been continuing repression, a tool Pinochet has employed to intimidate his opponents selectively but efficiently for 13 years. After lifting the 1984 state of siege in June, 1985, the dictator had maintained a comparatively light hand, permitting opposition magazines to print diatribes against the regime regularly, and quelling student protests with light displays of police force like tear gas and water hoses.

This restraint was due partly to official sensitivity about growing criticism of human rights abuses from other Western nations, and partly to concern about upcoming votes on proposed multilateral loans from the World Bank and the Inter-American Development Bank. The regime needed the loans to continue propping up the ailing economy and to meet scheduled

²Public opinion survey conducted by the Facultad Latinoamericana de Ciencias Sociales, Santiago, May, 1986.

interest payments on its \$20-billion foreign debt, and officials feared that the United States and other Western countries might vote against them to protest the lack of political progress in Chile.

By the spring of 1986, however, Pinochet was growing impatient with the costs of liberalization, which included an increasingly irreverent press and judicial challenges to the regime for human rights abuses. Soldiers with camouflage-painted faces began appearing on street corners and making predawn detention sweeps through politically restive slums like La Victoria and Pudahuel. On May 21, while dozens of international delegates to a conference on democratic restoration were meeting in a Santiago hotel, combat troops were sent to cordon off the downtown area, terrifying office workers and embarrassing the regime's conservative backers. In June, the government unleashed an unprecedented attack on the human rights office of the Catholic Church, arresting and imprisoning several church-affiliated doctors and lawyers on charges of harboring a wounded man allegedly linked to a leftist bombing. With the wave of repression in September, Pinochet reminded Chileans that no matter how unpopular he was, he retained the ultimate power to repress and punish dissenters of any stripe.

THE ECONOMY

Many Chileans, especially in the middle and upper classes, have also been unwilling to abandon the unpopular dictator because of their hope that his market-oriented, neoliberal policies will eventually turn the economy around, and their fear—fed by regime rhetoric—that the civilian alternative might be either a return to Allende's state-dominated policies or economic chaos. Although the regime's tight spending and import liberalization have sent hundreds of domestic companies into bankruptcy and increased unemployment to record levels, upscale consumers and investors have felt little pinch. Furthermore, after a severe economic slump in 1982, economic indicators have gradually crept upward, and many Chileans have been persuaded that the economy will right itself, given enough time to adjust.

Ironically for such a staunchly antisocialist regime, the Pinochet government has gradually gained a high degree of control over the private sector, partly through receiverships of failed banks and corporations, and partly through joint private and public development enterprises. This dependence has added to businessmen's reluctance to oppose the regime, while the dazzling technocratic formulas of Pinochet's economists have cowed many potential critics.

Recently, discussion has sharpened among private sector leaders over whether to continue backing Pi-

nochet; in 1986, the rightist head of Chile's largest industrial lobby was replaced by a moderate businessman. Nevertheless, the vigorous private sector protest in the fall of 1986 over possible United States opposition to upcoming international loans demonstrates that, to a large degree, Chile's business community sees its fate as deeply intertwined with that of the military government.

UNITED STATES POLICY

The inconsistent and shifting role of the administration of Ronald Reagan, unquestionably the most important foreign influence on Chile's government, has also been a key factor in the calculations of Pinochet and his remaining supporters. Although the Reagan administration has become increasingly critical of Pinochet in the past three years, United States officials have stopped short of punitive economic sanctions, diplomatic rejection or military alienation, let alone the kind of pressure that helped oust Ferdinand Marcos in the Philippines or Jean-François Duvalier in Haiti in 1986.³

Since 1980, Reagan administration policy toward Chile has evolved from tolerant support for an anti-Communist ally into mounting criticism of a dictator. United States officials remained wary of the socialist opposition and in favor of a controlled transition to democracy as designed under the 1980 constitution. But by the mid-1980's many had begun to suspect that Pinochet intended to remain in power indefinitely and that his deafness to moderate entreaties was a threat to Chile's stability and thus a threat to United States security interests. In addition, the Reagan administration began seeking a more balanced appearance in its foreign policy, which was often criticized in Congress for condoning rightist authoritarian regimes like Chile's while relentlessly attacking socialist governments like Nicaragua's.

During 1985 and early 1986, the United States tested various tactics—diplomatic criticism, army-to-army persuasion, economic sanctions—to press for speedier democratic change in Chile. In November, 1985, a new United States ambassador, Harry G. Barnes Jr., arrived; and this soft-spoken but activist veteran diplomat soon made a point of meeting with opposition leaders, appearing at human rights functions and, later, attending the funeral of Rodrigo Rojas—an event Chilean authorities dispersed with tear gas.

While Ambassador Barnes's activities were drawing indignant protests about "foreign intervention" from Pinochet, some United States military officials, like army General John Galvin, head of the United

(Continued on page 38)

³For a fuller discussion of United States policy, see Pamela Constable and Arturo Valenzuela, "Is Chile Next?" *Foreign Policy*, Summer, 1986.

Pamela Constable covers Latin America for the *Boston Globe*. She is the author, with Arturo Valenzuela, of "Is Chile Next?" *Foreign Policy*, Summer, 1986.

"In economic terms, Colombia's balance sheet is impressive. . . . The political side of the ledger is more complex and contradictory."

Colombian Politics: Crisis or Continuity?

BY BRUCE MICHAEL BAGLEY

Associate Professor of Comparative Politics, School of Advanced International Studies, Johns Hopkins University

ON August 7, 1986, Liberal Virgilio Barco Vargas assumed the Colombian presidency, having defeated Alvaro Gómez Hurtado, his Conservative party rival, in the May elections by a record 1.6 million votes. This landslide Liberal victory was due to the personal unpopularity of rightist candidate Gómez and to the perceived failures of the administration of incumbent Conservative President Belisario Betancur Cuartas (1982–1986).

What legacy did President Barco inherit? In a Latin America beset with debt crisis, economic stagnation, political instability and East–West tensions, many observers view contemporary Colombia as one of the few regional success stories of the 1980's. Some skeptics, on the other hand, point to disturbing trends, like growing economic dependence on raw material exports, severe economic inequalities, continuing drug trafficking, pervasive corruption, intensifying guerrilla violence, and rising military assertiveness, that lead them to pessimism about the country's future.

From the early 1950's through 1980, Colombia's gross national product (GNP) grew at an average but satisfactory rate of more than 5 percent per year. During the 1960's, real GNP per capita increased by a substantial 25 percent and it rose by an even stronger 40 percent during the 1970's. By 1980, GNP per capita was approximately 75 percent higher in real terms than it had been 20 years earlier. Furthermore, Co-

lombia's economic growth has been accompanied by significant improvements in social development indicators for most of its almost 30 million citizens. Illiteracy rates, for example, declined steadily from 43.1 percent in 1980 to 21.5 percent in 1983. Infant mortality dropped from 135.8 per thousand in 1950 to 45.7 in 1981. Life expectancy rates increased during the same period from 42.0 to 62.5 years.

Although the available evidence has shown no major improvements in income distribution patterns in recent decades, there has been no substantial deterioration; thus, the cumulative increases in real GNP have been widespread across most social groups and classes and have produced solid advances in standards of living for many among the poorest segments of Colombian society.¹

Colombia's economic growth rate slowed dramatically during President Betancur's term in office, with the advent of the great Latin American depression of the 1980's. Nevertheless, Colombia is the only nation in the entire region that has not suffered a single year of negative growth in the 1980's. Hence, in 1985, income per capita in Colombia was approximately equal to that of 1980, whereas Latin America as a whole had suffered an 8.9 percent decline.²

Nor has recently inaugurated President Barco inherited the overwhelming debt burdens that have hamstrung most Latin American economies in the mid-1980's. With approximately \$13 billion in combined public and private foreign debt in 1986, Betancur turned over an economy with one of the lowest per capita levels of indebtedness in the hemisphere, a comparatively low debt-service ratio, and an equally favorable ratio of external debt to gross domestic product (GDP).³

Of course, Colombia under Betancur did not escape the regional debt crisis completely unscathed. During the late 1970's and early 1980's, total public and private indebtedness almost doubled. In 1982–1983, Betancur's first year in office, several large financial institutions went bankrupt, forcing the government to take emergency measures to shore up the nation's staggering financial system. By 1984–1985, slow growth and deepening economic problems obliged the Betancur government to adopt strict International Monetary Fund (IMF)-style austerity measures.

¹Albert Berry and Francisco E. Thoumi, "Colombian Economic Growth Policies (1970–1984)," in Bruce M. Bagley, Francisco E. Thoumi and Juan G. Tokatlian, eds., *State and Society in Contemporary Colombia: Beyond the National Front* (Boulder, Colo.: Westview, forthcoming, 1987); Miguel Urrutia, *Winners and Losers in Colombia's Economic Growth in the 1970s* (London: Oxford University Press, 1985).

²Comisión Económica para América Latina y El Caribe (CEPAL), "Balance preliminar de la economía Latinoamericana," *Notas Sobre la Economía y el Desarrollo*, nos. 424–425 (December, 1985), p. 11. According to CEPAL, Cuba also avoided a year of decline. However, the concepts used in measuring Cuba's income are different from those employed in other Latin American countries, thus precluding a valid regional comparison.

³For an analysis of Colombia's favorable debt situation, see the World Bank, *Colombia: Economic Development and Policy Under Changing Conditions* (Washington, D.C., 1984), pp. 58–75, 145–146; Cesar Gaviria Trujillo, *Deuda Pública Latinoamericana* (Bogotá: Contraloría General de la República, 1984), pp. 102–109.

In April, 1985, Colombia sought an "enhanced surveillance" arrangement with the IMF in order to reassure its foreign commercial bank creditors of the country's creditworthiness. Despite such buffeting, however, the Colombian economy proved sufficiently resilient to avoid having to seek a standby loan from the IMF in 1985-1986.⁴

A combination of factors explains why Colombia was able to weather the debt crisis more effectively than most other Latin American economies. First, while the Colombian economy remains dependent on exports of natural resource-based products, its principal export—coffee—is one of the few commodities whose price has remained relatively favorable on world markets during the last decade. Key products like oil, wheat, sugar, tin and copper, in contrast, have gyrated wildly with profoundly negative consequences for most countries in the region.

Second, the coffee boom of the mid-1970's was complemented by a parallel boom in illegal drug exports (marijuana and cocaine). Colombia's twin agricultural bonanzas produced foreign exchange surpluses and facilitated the rapid accumulation of international reserves during the 1970's, while most of Latin America was borrowing heavily on international financial markets. These reserves gave the economy crucial flexibility during the painful period of slowdown and recession in the early and mid-1980's.

Third, via the National Front and its successor arrangement, Colombia was able to establish a relatively stable political regime buffered from the populist and military pressures that have so distorted the policies of countries like Argentina, Brazil, Uruguay, Bolivia and Peru. Fourth, and closely related to the previous point, Colombia's technocratic elites have had the skill, foresight and requisite political backing to adopt and implement macroeconomic policies that encouraged investment and sustained growth, while avoiding pitfalls of excessive foreign indebtedness, and an overly open (vulnerable) or overly closed (protected) economy. Among the best examples of such effective economic policies were the country's decisions to enact a crawling-peg devaluation scheme and to shift from an import-substituting industrialization strategy to export-led growth in the late 1960's, and its joint-venture approach to the development and exploitation of the country's coal and oil deposits in the 1970's and 1980's.

Fifth, rapid economic growth in the 1970's allowed the administration to create jobs and thus to forestall even more severe social and political tensions. Other

⁴In late 1986 there was some concern that a weakening external sector and rising government deficits could force Colombia out of compliance with its IMF targets and plunge the economy into serious financial difficulties; see, for example, "La política económica: Del ajuste al desajuste," *El Tiempo*, July 15, 1986, pp. 1A, 2A.

changes in social economic variables, like higher rates of female participation in the work force and a dramatic drop in population growth rates to less than 2 percent per year (down from 3.4 percent in the 1960's), contributed to higher family incomes and greater economic well-being.

Sixth, Colombian economic development benefited from large amounts of external assistance. Indeed, during the last quarter-century Colombia has been one of the largest per capita recipients of World Bank lending in the developing world. During the 1960's Colombia, along with Chile, became one of the "showcases" of the Alliance for Progress. Both the United States Agency for International Development (until 1975) and the Inter-American Development Bank have been very active in Colombia as well.

This concatenation of favorable structural factors, consistent macroeconomic policies, external support and fortuitous timing permitted Colombia to endure the vagaries of the international economy during the Betancur administration. With the advent of the 1986 coffee bonanza, the exporting of Colombia's Cerrejón coal and the development of recently discovered petroleum reserves in the eastern plains, Colombia was poised for a renewal of economic expansion at the outset of Liberal President Barco Vargas's term.

ECONOMIC CHALLENGES

President Barco also inherited from Betancur several major economic challenges that will have to be addressed if growth is to be sustained into the 1990's. The most immediate task is, of course, to overcome the economic stagnation of the first half of the 1980's and to stimulate renewed growth. In doing so, President Barco and his economic team will have to take great care that the Colombian economy does not fall victim to the "Dutch disease" (that is, an overdependence on raw material exports like coal and oil that crowds out other productive sectors of the national economy). Despite its relative diversification, Colombia's economy still depends heavily on a few basic commodity exports: coffee, sugar, bananas, marijuana, cocaine, coal and petroleum.

The country's modest levels of manufacturing exports declined sharply in the late 1970's and the early 1980's. The coffee booms of the mid to late 1970's and the mid-1980's were fortuitous; but if prices of several of the country's exports—especially coffee and coal—were to fall simultaneously, the nation's economy would be highly vulnerable to external shocks. To date, Colombia has escaped such an unfortunate combination, but judging by the Latin American experience, the new administration must prepare for such an eventuality through greater economic diversification.

The Barco government will also have to move forcefully to shore up the country's beleaguered finan-

cial system. During the years of economic slowdown in the early 1980's, a number of the nation's largest financial institutions and industrial enterprises either went bankrupt or had to be rescued with government bailouts as a direct consequence of mismanagement and fraud. Although the Betancur government made considerable progress toward stabilization, further reorganization and modernization of the country's severely weakened financial system are needed to put it on a sounder economic footing and restore investor confidence.

THE UNDERGROUND ECONOMY

The explosive growth of the country's underground economy, especially runaway drug cultivation, processing and trafficking, presents a third major challenge to Colombia's new President. Most of these resources (approximately US\$3 billion annually) are completely outside the control of national authorities. Because of their illegality, they are untaxed, and no effective means of channeling them into productive assets have yet been devised. Unchecked, the drug economy will continue to have massive corrupting effects on every aspect of Colombia's economic and institutional life, to undermine central government control over monetary policy, to introduce inflationary pressures, and to distort the rational allocation of economic resources and entrepreneurial energies in the economy.

A fourth challenge confronting Colombian authorities involves the knotty problem of structural under- and unemployment (30 percent). Despite the substantial drop in population growth rates during the last decade, at least through the end of the century Colombia will continue to have large numbers of young adults moving into the labor force (3 percent per year). To accommodate these new entrants, along with new rural migrants and the already substantial pool of accumulated under- and unemployed, the Colombian economy must grow by at least 5 percent a year while devising a more labor-absorptive growth strategy, or Colombia will run the risk of rising levels of popular unrest, especially in the nation's urban areas.

Colombia must also improve its public administration, especially in the transportation and energy sectors and in the area of tax collection. Transport coordination has been by and large deficient and was riddled with patronage and corruption under Betancur, as it was under previous Presidents. Energy development has been rapid, often disorganized and

poorly planned, leading to costly mistakes, excessive capacity and heavy indebtedness. The tax collection system is unfair and badly administered, and it produces insufficient income to sustain the country's ambitious public investment programs. New revenue-generating measures and improved tax administration are essential to guarantee sufficient public sector savings to finance future government programs.⁵

POLITICAL ACHIEVEMENTS

Along with its comparatively positive economic performance during the last quarter-century, Colombia has posted some impressive political accomplishments. Most important, the bipartisan National Front arrangement successfully ended a chaotic decade of undeclared civil war—La Violencia—and military dictatorship during which 200,000 Colombians lost their lives. The National Front also restored civilian rule and civilian authority over the military. Furthermore, it helped to reduce traditional party hatreds and to teach both sides how to live and work together again. Although difficult to quantify or measure, this experience in the politics of compromise stands out as one of the major contributions of the National Front experience to Colombia's contemporary political culture.⁶

Reflecting this learning process, in 1974 the transition from the restrictive National Front arrangement to formally competitive electoral procedures was completed without political breakdown or a return to *violencia*. Since 1974, three presidential elections have been held on schedule without disruption. In 1982, after two Liberal victories, Conservative Belisario Betancur won the presidency, and political power was transferred without incident; in 1986, the Liberals triumphed once again and Barco assumed the presidency. Such rotation of the government from one party to another is an acid test of democratic stability. Measured against this standard, Colombia is one of the few countries in Latin America that qualifies as a democracy.

During his administration, President Betancur launched a historic peace process with the country's revolutionary guerrilla organizations that, despite many setbacks, led to the participation of the nation's largest guerrilla organization, the Fuerzas Armadas Revolucionarias de Colombia (FARC), in the 1986 elections. Betancur also initiated a variety of political reforms designed to open up or "democratize" the political system. Among the most important of these reforms were electoral reform, campaign finance reform, an opposition statute, and the introduction of direct election of municipal mayors. The approval of the direct election initiative constituted a major break with Colombia's centralist and unitarian political traditions and, at least potentially, marked the beginning of a new phase of local participation that could trans-

⁵World Bank, op. cit., pp. 84–140.

⁶Robert Dix, *Colombia: The Political Dimensions of Change* (New Haven: Yale University Press, 1967); R. Albert Berry and Mauricio Solaun, "Notes Toward an Interpretation of the National Front," in R. A. Berry et al., eds., *Politics of Compromise: Coalition Government in Colombia* (New Brunswick, N.J.: Transaction Books, 1980), pp. 435–460.

form the nation's elitist political system from the bottom up.⁷

Especially during the activist years of the Betancur administration, the country's role in hemispheric relations (the Organization of American States, Contadora, the Consensus of Cartagena) and international affairs (the United Nations and the Nonaligned Movement) expanded substantially. While the practical results of most of these initiatives are still very much in question, President Betancur's higher profile and more nationalist and independent diplomacy enhanced his personal popularity and prestige at home and abroad during the first years of his presidency.⁸

However, the incoming Barco government inherited critical political challenges that must be dealt with if the stability of the system is to be preserved. Indeed, a strong argument can be made that the political problems facing President Barco are far more

⁷On the evolution of Betancur's peace initiatives see Americas Watch Committee, *The Central-Americanization of Colombia? Human Rights and the Peace Process* (New York, 1986); for Betancur's direct mayoral election initiative and other political reform proposals, see Ricardo Santamaría S. and Gabriel Silva Luján, *Proceso político en Colombia: Del Frente Nacional a la Apertura Democrática* (Bogotá: Fondo Editorial CEREC, 1984), pp. 73-176.

⁸See Fernando Cepeda Ulloa, "El proceso de paz en Colombia y la política internacional," in F. Cepeda Ulloa and Rodrigo Pardo, eds., *Contadora: Desafío a la diplomacia tradicional* (Bogotá: Centro de Estudios Internacionales, Universidad de los Andes, 1985), pp. 11-22; and Gabriel Silva Luján, *Política exterior: Continuidad o ruptura?* (Bogotá: Fondo Editorial CEREC and Centro de Estudios Internacionales, 1985), pp. 95-116.

⁹Including FARC, there were approximately 15,000 armed guerrilla combatants in Colombia in 1986. The Ejército de Liberación Nacional (ELN), the Ricardo Francon Front, the Ejército Revolucionario de los Trabajadores (ERT) and Patria Libre never signed truces. The Movimiento del 19 de Abril (M-19), the Ejército Popular de Liberación (EPL), the Movimiento de Auto-Defensa Obrero (MAO or ADO), and the Quintín Lame group all signed agreements in 1984 and then returned to guerrilla warfare in late 1985. The guerrillas said they resumed fighting because of systematic military violations of the truces and President Betancur's inability to fulfill his promises of economic and political reform.

¹⁰While FARC has been willing to accept integration into the electoral process, groups like M-19, ELN and the EPL have all sought some form of power-sharing and a reorganization of the armed forces as basic conditions for abandoning their revolutionary struggle.

¹¹On Colombia's human rights situation, see Amnesty International U.S.A., "Amnesty International Reports Killings, Torture in Colombia" Amnesty International news release (New York, July 17, 1986); Americas Watch, op. cit., pp. 101-147. The Colombian military never wholeheartedly endorsed President Betancur's peace initiatives. In the wake of M-19's attack on the Palace of Justice, the military high command publicly reaffirmed its intention of "annihilating" the rebels "within the year." At the same time, the military leadership told President Betancur that it simply would not tolerate further negotiations with M-19 or any other rebel group that resumed armed struggle.

troublesome and intractable than the economic issues.

At the very top of the political agenda is the question of how to deal with the current wave of armed revolutionary violence. Of the nine left-wing guerrilla organizations known to be active in Colombia, all but the Moscow-line FARC either refused to join President Betancur's peace process from the start or had decided to return to armed struggle by the end of his presidency.⁹

As the largest and most disciplined rebel organization, FARC continued to adhere to the peace accords in 1986, offering some hope that the Betancur government's peace efforts might lead to the permanent incorporation of some armed rebels into the political system. Nevertheless, from the outset of his term, President Barco faced a major challenge from armed rebels bent on the radical reconstruction of Colombian society. To defeat the rebel groups militarily, if it were possible, could well necessitate an across-the-board suspension of democratic procedures and civil and human rights. To negotiate a viable peace accord with the most radical guerrilla groups would appear to require power-sharing agreements that the Colombian political elites are likely to oppose.¹⁰ The probability of intensifying violence and prolonged guerrilla warfare during the Barco presidency and beyond is therefore dismayingly high.

In the wake of M-19's seizure of the Palace of Justice and its subsequent destruction by the military in November, 1985, the Colombian armed forces appear to have concluded that their only realistic strategy is to seek the total elimination of the rebels through military force. Ominously, during the last six months of the Betancur government, several international human rights organizations had observed that a "dirty" war between the military and the guerrillas already appeared to be under way in Colombia and that the nation's civilian authorities seemed to have little control over the strategy and tactics being pursued by the armed forces. Reinforcing this interpretation, in mid-May, 1986, the Colombian attorney general (procurador) publicly denounced the extrajudicial executions and torture tactics being employed by lower echelons of the military in the war against the guerrillas.¹¹

Although clearly an urgent priority, the guerrilla struggle should be viewed as only one (albeit highly visible) dimension of a far deeper problem confronting

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Bruce Michael Bagley is editor of *Contadora and the Diplomacy of Peace in Central America* (Boulder, Colo.: Westview Press, forthcoming, 1987) and coauthor with Richard Feinberg of *Development Postponed: The Political Economy of Central America in the 1980s* (Boulder, Colo.: Westview Press, 1986). He is currently working on a book on political power and the state in Colombia.

"The rising tide of democracy in [Latin America] has left Paraguay a low island of authoritarian rule that might be swamped by its neighbors." But General Stroessner, who has ruled Paraguay for 32 years, has already warned that "my opponents will not have the satisfaction of seeing me flee like Marcos or Duvalier."

Paraguay's Stroessner: Losing Control?

BY JOHN HOYT WILLIAMS

Professor of History, Indiana State University

MANY observers of Paraguay, including this writer, have been writing General Alfredo Stroessner's political obituary for 20 years or more but, as the old saying has it, reports of his death have been exaggerated.

There are rumors that Stroessner will run again for the presidency of Paraguay (1988–1993).¹ Already in power longer (32 years) than any current chief of state save North Korea's reclusive Kim Il Sung, Stroessner might "run" out of habit. There is a further resemblance between the aging (73-year-old) right-wing autocrat of semitropical Paraguay and the demagogic, Stalinist dictator of frigid North Korea: they are both grooming sons to succeed them. In North Korea, the succession is official and as inevitable as anti-Americanism; in Paraguay, it is thus far informal and, most probably, a pipe dream.

Stroessner is rapidly losing control of major events. Paraguay suffered the worst floods of the century in 1984, which wiped out major cotton-producing zones and drowned an estimated half million cattle (about 10 percent of Paraguay's herds). Stroessner's inaction in the face of the genuine aid needs of many flood victims has been resented. The rising tide of democracy in the region has left Paraguay a low island of authoritarian rule that might be swamped by its neighbors. Brazil and Argentina returned to democracy after 20 years of military rule in 1984; Uruguay followed suit the following year. Their respective leaders, José Sarney, Raúl Alfonsín and Julio María Sanguinetti, have been cool to the point of insult to Stroessner. From Argentina—long a haven for Paraguayan dissidents—there are now anti-Stroessner radio programs as well as printed attacks. Even coup-prone Bolivia has a popularly elected President, the venerable veteran Victor Paz. Only Chile, with stern and efficient General Augusto Pinochet Ugarte, comforts Alfredo Stroessner, but Chile neither borders Paraguay nor has very much contact with it, even rhetorically. Today, Paraguay is awash in its neighbors' democracy.

General Stroessner was elected to his seventh term

¹John Vinocur, "A Republic of Fear," *The New York Times Magazine*, September 23, 1984, p. 23.

in office in February, 1983, running against candidates from two other legal parties, the Partido Liberal (PL) and the Partido Liberal Radical (PLR). The results were made available the same day, even before the polls closed. Stroessner had won 919,500 votes; the opposition, 91,000. According to the Paraguayan constitution, the Colorados thus won two-thirds of all seats in the legislature; the opposition parties divided the remaining third according to their voting strength. It is worth noting that election day is the only day that the perpetual state of siege is lifted.

It might be expected that the long tenure of General Stroessner and the Colorado party would stunt political growth in Paraguay, but this is not the case. Paraguayans love politics, no matter how restrictive the scale or how small the arena. Consequently, there is a congeries of parties, many of which are not legally recognized. Four of these constitute the Acuerdo Nacional, a now unraveling attempt to unite four of the major opposition factions: the Febreristas (legal), the Popular Colorado Movement (MOPOCO, legal), the Liberal Radical Auténtico (illegal) and the Christian Democrats (illegal). In addition to the minuscule, outlawed Communist party, one can identify the Liberal Radical and Liberal parties, and the rather radical Partido Colorado en Exilio y la Resistencia and the Organización Político Militar.

The ruling Colorado party is itself increasingly split because, in addition to the rapidly growing MOPOCO, the recent formation of the Militantes and Tradicionalistas is shattering the myth of party unity. The Militantes, centering around Stroessner's private secretary, Mario Abdo Benítez, are pushing either for Stroessner's continuance or the elevation of Stroessner's son Gustavo, an air force colonel. The Tradicionalistas want an end to the "Stronato" and favor a civilian successor, most often mentioning Supreme Court Chief Luis María Argaña.

After Stroessner's "stunning" 1983 victory, political activity burgeoned—in traditional channels, in the streets and in the media. The results were predictable. With his strong mandate, Stroessner cracked down in 1983 and 1984. Prestigious *ABC Color*, an independent newspaper owned by Aldo Zucolillo, was

permanently closed, leaving only the Roman Catholic Church's *Sendero* and the Febreristas' *El Pueblo* to report nonofficial news and views.

Not only was *ABC Color* quashed, but the first issue of *Extra Deportivo* was confiscated, along with the presses that published it, and the relatively independent Radio Ñandutí has been harassed and jammed by the government. Further, joining Paraguayan novelist Augusto Roa Bastos in exile was Domingo Laino, an economist and scatological novelist, who is also one of the leaders of the Partido Liberal Radical Auténtico. Outspoken priests have been exiled; many politicians and editors have been jailed; and public demonstrations have been broken up by force. While one source stated in 1986 that "torture and illegal detentions are down from previous years,"² Amnesty International still collects copious reports of human rights abuses in Paraguay.

After the crackdown, in a rare display of magnanimity, Stroessner decided to legalize MOPOCO, long regarded as radical. MOPOCO's leaders, including Miguel Angel Casablanca, were permitted to return to Paraguay, although they were shadowed everywhere, occasionally placed under house arrest and, once in a while, jailed. MOPOCO is too influential among young Colorados to be ignored, but it is constantly reminded of the limits to acceptable political activity.

In late 1985 and 1986, the outlines of future Paraguayan politics finally became discernible. The public at large will not accept the military's old guard (primarily General Andrés Rodríguez) to succeed Stroessner. Aged and tainted with scandal, the old generals will disappear from public view. It is possible that Gerardo Johannsen, a Stroessner favorite among the younger generals and one of the few Paraguayans of Danish extraction, might step into the breach, because he is likable and "clean," and holds the low-profile post of chief of military educational institutes, but he has apparently demurred. Few seriously expect Gustavo to replace his father, and if Alfredo tried to slip him into power, Gustavo would probably not last long.

Thus, there will probably soon be a civilian in the Palacio López, and there are a multitude of (mostly self-proclaimed) candidates. Most candidates, however, are tied too closely to one political party to gain across-the-board support. Prominent among them are Laino, Christian Democrat Luis Alfonso Resck, Liberal Carlos Levi Rufinelli, and Colorado party president Juan R. Chaves (age 84). These are all respected civilian, but not national, leaders, especially in view of the continuing fragmentation of the Colorado party and the increasing disarray of the Acuerdo Nacional.

²*Latin America Regional Report: Southern Cone*, April 12, 1986, p. 8.

³*Ibid.*, July 3, 1986, p. 6.

⁴*Ibid.*

Basically, the issue hinges on the one man apparently acceptable (at least as a transition figure) to almost everyone: Supreme Court Chief Argaña. Argaña is even in the good graces of the military, whose 20,000 officers and men are the ultimate arbiters of Paraguayan politics.

In June, 1986, Stroessner warned that "my opponents will not have the satisfaction of seeing me flee like Marcos or Duvalier."³ But for the first time pressure is being applied on him to resign, with opposition parties and factions screaming openly for his resignation. For the first time, there have been mass rallies and demonstrations demanding democracy in Paraguay. In March and April, 1986, the Partido Liberal Radical Auténtico held large mass meetings in the long-ignored interior. And the response showed the latent political potential of the peasants, who were willing to risk arrest to participate. There were also large rallies in Asunción, and a massive protest at the generally pro-government National University was broken up with cattle prods and billy clubs. The opposition is growing increasingly vocal and assertive. In April and in June, there were pro-Stroessner rallies and parades in Asunción (denouncing "imported democracy"). Yet it seems clear that Stroessner suspects that he cannot count on the necessary support to run in 1988. Most probably, he will step down shortly before the elections, naming Argaña as his successor.

The politicization of Paraguay in the past three or four years has been largely due to what amounts to an economic implosion, which has seriously affected all sectors (except smuggling). The crunch came after the glorious "Itaipú years" of 1977-1983, when construction and banking boomed. Terrible floods, worse weather, falling market prices for Paraguay's major crops, and hundreds of thousands of Brazilian immigrants squatting on Paraguayan land crippled the economy.

Paraguayans had put too much faith in the magical effect of the binational Yací-Retá hydroelectric station to be built with Argentina on the Alto Paraná. The station was expected to bring another series of boom years to Paraguay, but this has not materialized. Yací-Retá, a 10-year project, was projected to generate electricity by 1991; but because of Argentina's domestic political and economic problems and Paraguay's refusal to devalue its monetary unit, the guaraní (G), construction has not yet begun. The only bright spot for Paraguay is the deal worked out with Argentina, whereby Argentina will pay Paraguay 20 times as much per megawatt generated from Yací-Retá as Brazil is paying for power from Itaipú, which came on stream in 1984. That is, of course, if Yací-Retá is actually built.

"Paraguay is in trouble,"⁴ rasped a headline on the Paraguayan economy in March, 1986. The govern-

ment's refusal to devalue the guaraní to keep pace with inflation has caused a decline in Paraguayan exports, while the price of imported goods has risen dramatically. After 20 years of ₡126 to the dollar, the guaraní took a nosedive in 1983, while the government ignored the phenomenon. On the open market in one eight-day period in 1985, the guaraní's value slid from ₡660 to ₡880. It is currently trading for over ₡1,000 to the dollar, although the official exchange rate is less than one-third of that. Paraguay faces threats from the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank, which will certainly withhold future loans unless serious devaluation is implemented.

Paraguay's tourist industry has collapsed because the country is no longer an inexpensive vacation spot. There is a massive flight of capital; manufacturing goes on at less than 50 percent of capacity; unemployment is estimated at 30 percent, with even higher rates of underemployment. Corruption is endemic and smuggling is estimated to be running at \$600 million annually (including the illegal deforestation of much of eastern Paraguay by Brazilian lumber companies), considerably more than the value of legal commerce.

In January, 1986, despite the fact that he declared that the Paraguayan economy was in fine shape, Industry and Commerce Minister Delfín Ugarte found himself heading a new National Council on Exports. This new council, in part a response to the private Paraguayan Business Council's demands, was to "eliminate" smuggling, halt the slide of the guaraní, and reform foreign investment laws. It had better move fast. Brazil is withholding its modest payments for Itaipú electricity, using them instead to pay Paraguayan debts (public and private) to Brazilian institutions. Three Paraguayan freighters have been embargoed for debts at Ambarès, Rotterdam and Miami. The national airline, *Lineas Aereas Paraguayas*, is reluctant to land at several foreign airfields, fearing that its planes might be seized.

In addition, having spent \$1.9 billion on the nonexistent Yací-Retá, the Argentines are demanding renegotiation of that project's treaty, claiming that the artificial value of the guaraní will add more than a billion dollars to construction costs. With inflation running at an annual rate of 40 percent in early 1986 and with service on its growing foreign debt reaching \$270 million in 1986 (and small chance of future loans), Paraguay sees little light at the end of the economic tunnel.

The picture in the countryside is even bleaker, and is not likely to improve immediately. Some 80 percent of all agricultural land is owned by 1 percent of the population (the highest concentration in Latin America). Foreigners like the owners of the Carlos Casado Company own vast chunks of the nation (over 3 million acres), while hundreds of thousands of Para-

guayans eke out a living on a few acres each. Added to this imbalance has been the falling world price for soya, cotton, and cotton by-products, Paraguay's leading export crops. Peasant organizations, long suppressed by force, are now a fact of life, and a permanent peasant assembly is demanding land for the landless. So potentially important is the assembly that the government has appointed a study group to examine agricultural policy.

The unions are—as usual—quiescent, but the peasants are not. They have forcibly seized vacant or unused lands throughout Paraguay. These "land invasions" have been countered by the military in some instances (with many arrests); but the government's Institute of Rural Welfare has been ordered to legalize some of these invasions, instead of provoking a major struggle. In the first 10 months of 1985, there were 31 actual land invasions, and growing peasant militance (plus some government threats) has led to the flight of over 300,000 Brazilians, who had informally settled in Paraguay during the Itaipú years. For the first time in this century, the peasant is a force to be reckoned with.

The one potential bright spot concerns the search for petroleum deposits—a search that has been going on fruitlessly in Paraguay for 42 years. In 1985, sizable pools of oil were located in the Argentine Chaco, just south of the Pilcomayo River. Since the geology of the area north of the river, in Paraguay, is similar, there were hopes in Asunción that, finally, oil wealth was at hand. Five foreign companies—including Brazil's Petrobrás—are currently exploring, and there might be oil near the Pilcomayo. But the prospective site is so isolated in the Chaco scrub that only an immense pool would justify extraction, and then only if there were no international oil glut.

FOREIGN RELATIONS?

Paraguay has had few close friends, especially since 1984, when the tide of democracy began to roll toward the region. In addition to its return to civilian rule, two other issues cloud Brazil's relationship with Paraguay. One is the issue of smuggling. The Brazilians have been trying to crack down on the flow of contraband, which undermines its import-substitution policies, and—without notable success—they have been attempting to persuade Paraguay to do the same. Unfortunately, the chief smugglers are Paraguayan *políticos* or *militares*, or act with their connivance. General Andrés Rodríguez, the second most powerful man in Paraguay and the commander of the critical First Army Corps, is also the nation's major smuggler. He has been repeatedly linked with drug-running as well, and has been directly implicated in the 1986 seizures of 43 kilos of pure cocaine and some 744 kilos of marijuana in Paraguay. Drugs have poisoned relations between Paraguay and various nations since the late

1960's, when August Ricord was running a heroin network out of Asunción, and the drug-phobic Brazilians take the issue seriously. The second impasse stems from the inability of private and public Paraguayan institutions to pay various debts owed to Brazil and Brazilians. This has caused the withholding of Itaipú electricity payments and the freezing of several Paraguayan accounts in Brazil.

Paraguay's relations with Argentina are equally depressed, because Stroessner publicly backed Argentine President Alfonsín's opponent in the elections of 1984. In addition, hundreds of thousands of Paraguayans live in Argentina, including many a famous Paraguayan exiled in the past few years. Cool relations are heightened by the smuggling issue and by Paraguay's unwillingness to devalue the guaraní, which Argentina interprets as the virtual sabotage of Yací-Retá. Argentina would like to see a change of regime in Asunción and makes no secret of it.

United States Ambassador Arthur H. Davis, who served from 1982 to 1985, was hardly persona grata in Asunción, although he was not avowedly anti-Stroessner. In residence during a period when Stroessner was being denounced in the United States Congress for various abuses and when the United States Agency for International Development (AID) mission in Asunción was being phased out, Davis also had to react to the closure of *ABC Color*, which he did by canceling performances by a United States army band and a crack parachute team, scheduled for Paraguay's May 15 Independence Day celebrations. The ambassador also invited leading figures of the Acuerdo Nacional to embassy functions (along with important, embarrassed government figures). Davis nonetheless argued cogently against sanctions, which would alienate the Stroessner regime and hurt the Paraguayans, and he won a modest increase in training funds for the Paraguayan army.

Before Davis left Asunción, it was widely known that his successor would be a person with drug enforcement experience; this was a tacit accusation of Paraguayan complicity in drug smuggling. And so it was; in late 1985, Ambassador Clyde Donald Taylor took Davis's place. A former assistant secretary of the State Department's Bureau of International Narcotics Matters, Taylor was a blunt, no-nonsense emissary and, not long after he arrived, there were several major drug busts, the first in years. Although he has not openly attacked the Stroessner regime, Taylor has frequently met with opposition leaders, and the Palacio López has roundly denounced him for meddling in the internal affairs of Paraguay.

The United States, however, has little influence over Stroessner because the United States AID mission is all but closed, military aid has all but ceased, and foreign loans are all but impossible to squeeze from international lending bodies.

There have been other diplomatic contretemps, including an episode with West Germany, which Stroessner had planned to visit as early as 1983. Because of the stories of human rights abuses, drug smuggling, the Mengele affair and a variety of less publicized problems, the West German government was evasive about setting a date. When a date was finally chosen in July, 1985, the Bonn government was bombarded with letters from Paraguayan opposition politicians urging it to call off the visit. German Foreign Affairs Minister Hans-Dietrich Genscher quietly let it be known that he would be out of town during the Stroessner visit, and the general himself called off the trip.

The Pope, however, will finally visit Paraguay (and Chile and Argentina) in April, 1987. It was rumored for years that Stroessner was trying to wangle a papal visit—in part to boost his prestige with the small but vociferous Roman Catholic Church—but nothing ever came of it. Now, the Vatican has announced that a visit will take place, but this is certainly not because of Stroessner's urging. In fact, because Stroessner has exiled many priests over the years and has harassed the Catholic University, the Pope may offer Stroessner strong rhetoric and advice, perhaps echoing Archbishop Ismael Rolón, who has been urging Paraguayans to join political parties and take an active part in the direction of the country.

THE ARMY

Despite Gustavo Stroessner's colonelcy in the air force, in Paraguay the army is the military, in numbers, tradition and firepower. The army (which has a disproportionate number of generals) numbers between 11,000 and 14,000 officers and enlisted men, most of the latter two-year conscripts who will gain education more than anything else from their service. The army is organized somewhat grandiosely into a cavalry division, six infantry regiments, six motorized engineer battalions, three artillery regiments and a select, 1,500-man presidential escort battalion, with the finest equipment. While much of the army's hardware is antiquated American surplus, increasingly one finds Brazilian-made, state-of-the-art armored vehicles and artillery.

The air force, with some 2,000 personnel, flies American C-47 and C-54 aircraft and various Brazilian transports and ground attack craft, which play counterinsurgency roles. The navy, with 1,900 men, plus a 500-man "regiment" of marines, is made up of

(Continued on page 34)

John Hoyt Williams lived in Paraguay for four years. He is the author of *The Rise and Fall of the Paraguayan Republic, 1800-1870* (Austin: University of Texas Press, 1979), and *The British Invasions of the Rio de la Plata, 1806-1807* (forthcoming).

Confronted with a massive foreign debt and a fanatical guerrilla movement, Peru's President Alan García has acted decisively if not effectively. "Real progress against the nation's major problems will require García to spend his political capital and make some tough decisions."

Debt, Democracy and Terrorism in Peru

BY DAVID P. WERLICH

Professor of History, Southern Illinois University, Carbondale

ON July 28, 1986, President Alan García Pérez completed the first year of his five-year term. He had espoused the best intentions and displayed great energy; but he had made little headway against Peru's major problems. Nevertheless, public-opinion polls indicated that some three-fourths of García's 20 million countrymen viewed his performance positively, while only about 2 in 100 gave him a failing grade. The dynamic young leader's popularity rested largely on his considerable charisma and political skill. Peruvians also understood that their President faced great difficulties that were not of his making.

García inherited a mess, but he also benefited politically from Peru's recent past. A 12-year "Revolutionary Government of the Armed Forces" (1968–1980) had instituted a series of radical reforms. Most of these went awry, and the regime became harshly authoritarian, earning the opprobrium of the people. The experience chastened Peru's generals and made them less enthusiastic about running the country. Many citizens developed a healthy skepticism of panaceas and expected less from their government. But the ineffectiveness of President Fernando Belaúnde Terry, García's immediate predecessor, brought widespread despair.¹ His was a very easy act to follow.

Campaigning as the free-spending populist he had been during his previous administration (1963–1968), Belaúnde scored an impressive victory in the 1980 election. But he adopted conservative, free-market policies that failed.² Freakish weather and an almost 40 percent plunge in the average price for Peru's exports ravaged the economy. To service the \$9-billion foreign

debt and cover huge deficits in the trade and budget accounts, Belaúnde borrowed an additional \$4 billion. A 61 percent annual inflation rate in 1980 spiraled to 150 percent in 1983, and was galloping toward 250 percent in mid-1985, when Belaúnde left office. At that time, 60 percent of Peru's industrial capacity was idle; almost two-thirds of the labor force was inadequately employed; real wages had plummeted at least 40 percent since 1980; and per capita income had fallen to the level of the mid-1960's.

Belaúnde also left a bloody insurgency.³ On election day in 1980, the Maoist Sendero Luminoso (Shining Path, SL) guerrillas, based in the poor, isolated department of Ayacucho in the south-central highlands, launched their "people's war." Led by former philosophy professor Abimael Guzmán Reinoso, the rebels—including many Quechua-speaking peasants—vowed to destroy Peruvian capitalism and establish a primitive form of agrarian communism. Belaúnde at first underestimated the danger. In October, 1981, he proclaimed a state of emergency in most of Ayacucho and parts of two adjacent departments, suspending several constitutional guarantees.

But the rebels were more than a match for the national police. From Ayacucho, SL's bombings and murders spread to Lima and other cities. In December, 1982, the President placed the emergency zone under military control, sent in soldiers and marines, and gave them free rein. Peasant communities previously terrorized by SL were brutalized by the armed forces who, in some instances, massacred entire villages. Hundreds of individual citizens "disappeared" while in the custody of the security forces. Outgunned in Ayacucho, SL intensified its activities in other parts of Peru. Before December, 1982, the guerrilla war had taken 134 lives. By the end of 1985, the death toll had surpassed 8,000, and was growing at a rate of 226 per month.

Reluctant to acknowledge these unpleasant realities, Belaúnde did little beyond making vacuous speeches, and his public support evaporated. He was increasingly dependent on the armed forces and allowed them to order \$4-billion worth of new weapons. By 1985, Belaúnde—who had once been ousted by the

¹For details see David P. Werlich, "Peru: The Shadow of the Shining Path," *Current History*, vol. 83, no. 490 (February, 1984), pp. 78–82, 90.

²Thomas G. Sanders, "Economics and the Peruvian Political Process," *Universities Field Staff International Reports*, no. 28 (1984).

³See Cynthia McClintock, "Sendero Luminoso: Peru's Maoist Guerrillas," *Problems of Communism*, vol. 32, no. 5 (September–October, 1983), pp. 19–34; and David Scott Palmer, "Rebellion in Rural Peru: The Origins and Evolution of Sendero Luminoso," *Comparative Politics*, vol. 18, no. 2 (January, 1986), pp. 127–146.

military (in 1968)—seemed interested only in surviving his term and transferring power to an elected successor.

Nine candidates, including four major contenders, entered the 1985 presidential race.⁴ From the beginning, the polls indicated that the winner would be Alan García, the new leader of the American Popular Revolutionary Alliance (APRA), Peru's oldest, best-organized and most controversial party.

Víctor Raúl Haya de la Torre (1895–1979) had founded APRA in 1924, while in exile in Mexico. Haya originally intended APRA to be an international alliance of Latin American parties united against “Yankee imperialism” and supporting profound change. Although Haya maintained his goal of Latin American unity, he soon focused his attention on Peru. In 1931, he ran for President on a platform that contained at least the germ of almost every major reform adopted in Peru during the next half century. Yet Haya never won the presidency. He lost the 1931 election to a right-wing army officer, and APRA became locked in a civil war with the new regime. Atrocities committed both by Haya's Apristas and by government soldiers led to an enduring hatred between the party and the armed forces.

Haya died in 1979, and APRA gave its 1980 presidential nomination to Armando Villanueva, a longtime Aprista. His campaign emphasized APRA's radical past, alienating party conservatives; and his strident rhetoric reminded independents of APRA's historical intolerance. Villanueva won only 27 percent of the vote in a distant, second-place finish to Belaúnde.

Alan García emerged from this debacle. He was born in Lima to middle class parents on May 23, 1949. His father, an APRA official, had been jailed two months earlier by the dictator General Manuel Odría. He remained imprisoned for seven years. Alan García enrolled in APRA's youth organization at the age of twelve. After receiving a law degree from Lima's San Marcos University in 1972, he earned a law doctorate in Madrid and a doctorate in sociology from the Sorbonne in Paris, writing a dissertation on APRA. García returned to Peru in 1977, became a top aide to Haya, and won election to the constituent assembly which, in 1979, promulgated Peru's current constitution.

The next year he outpolled all Aprista candidates in winning a seat in the Chamber of Deputies. Elected secretary general of APRA in 1982, García patched the breach between its right and left wings and worked to broaden the party's appeal. In García, the party

had a leader with impeccable Aprista credentials, untarnished by the darker episodes in APRA's past.

After a bitter struggle, Javier Alva Orlandini won the 1985 nomination of Belaúnde's center-right Popular Action (AP) party. Given the administration's dismal record, AP had no chance of victory, especially after it failed to form an alliance with the conservative Popular Christian party (PPC), which had supported Belaúnde in Congress. The PPC's Luis Bedoya Reyes formed a coalition (the Democratic Convergence, CODE) with conservative APRA dissident Andrés Townsend. With the political right divided, García's only challenge came from Leftist Unity (UI), a fragile coalition of about a dozen Marxist parties that supported Alfonso Barrantes Lingán, the mayor of Lima. Barrantes was handicapped by inadequate funding, feuds within the UI, and the marked deterioration of Lima's public services during his tenure.

García's slickly managed and well-financed race deftly played on the loyalties of hardcore Apristas while courting independents. His slogan pledged his “commitment . . . to all Peruvians.” García deemphasized Aprista ideology, identified himself with Europe's social democratic parties, and staked out the broad center-left of the political spectrum. He vigorously attacked Belaúnde's failed policies but provided few specifics about his own agenda. Avoiding direct debate with his opponents, he spoke very effectively to huge crowds around the country. In contrast to the 72-year-old Belaúnde, García projected great vitality.

As the April 14 election drew near, only the size of García's victory was in doubt. Direct election required an absolute majority of the ballots, including blank and spoiled ones. Failing that, there would be a runoff between the two leading candidates. The opposition's only hope lay in a united effort against APRA in a second round. García received 46 percent of the vote (53 percent of the valid return), winning in all but 2 of Peru's 25 departments. The UI's Barrantes placed second, with 21 percent of the vote; Bedoya of CODE took 10 percent; and AP's Alva, 6 percent. APRA also won a majority in both Chambers of Congress. Facing a hopeless task, Barrantes refused to participate in a runoff, a decision accepted by the national election jury.

Alan García received the presidential sash on July 28, 1985. The ceremony marked the first transfer of power in 40 years from one freely elected Peruvian government to another, and the first time ever that a Peruvian President had peacefully surrendered his post to a genuine opposition candidate. At age 36, García became the youngest chief executive in the Western Hemisphere.

On inauguration day, García decreed a two-day bank holiday and instituted an emergency economic package.⁵ Additional measures were introduced on an almost daily basis until October 5, when the President

⁴For coverage of the election, see Lewis Taylor, “Peru's Alan García: Supplanting the Old Order,” *Third World Quarterly*, vol. 8, no. 1 (January, 1986), pp. 100–136.

⁵For a detailed analysis, see Carol Wise, “The Perils of Orthodoxy: Peru's Political Economy,” *NACLA Report on the Americas*, vol. 20, no. 3 (June, 1986), pp. 14–26.

announced a 42-point program. These and later initiatives sought to check inflation, protect the meager livelihood of Peru's poorest citizens and resuscitate the economy. Payroll and sales taxes were cut. The minimum wage was increased by half, to \$42 per month. Public employees received raises that averaged 18 percent, while nonunion workers in the private sector obtained a flat, \$12-per-month hike. After boosting the price of several public sector goods and services, the administration froze prices, wages and rents.

García hoped that the price cap would dampen inflation and that increased demand arising from the pay raises would activate idle industrial capacity. Producers were to benefit from increased funding for the state development banks and a 75 percent cut in the interest rates charged by commercial lenders. The regime targeted Andean farmers for subsidized loans and announced an emergency development program for the Ayacucho region. To aid manufacturers, the administration banned the import of 239 products.

For a decade, previous administrations had devalued Peru's currency, the sol, on a weekly basis. This prevented domestic inflation from pricing Peruvian exports out of the international market but increased the cost of imports, including much of the nation's food. The García regime devalued the sol 12 percent, and froze the exchange rate at about 14,000 soles to the dollar. To maintain Peru's competitiveness in world markets, however, exporters could exchange their dollars at a rate one-fourth higher. As of January 1, 1986, Peru adopted a new monetary unit, the inti, worth 1,000 soles.

To balance the domestic budget, García closed some of Peru's embassies and proposed selling several of the state's 175 autonomous corporations. He asked higher paid officials, including legislators, to accept pay cuts, and set an example by rebating one-third of his own \$600-a-month salary. Hoping to reduce defense spending, Peru began talks with Chile and Ecuador aimed at an end to their regional arms race. In early 1986, Peru succeeded in halving the Belaúnde regime's \$700-million contract for 26 French Mirage warplanes. To enhance income, the regime improved tax-collection procedures, and ordered large firms to buy treasury bonds.

In March, 1986, the government signed a controversial new agreement with the Occidental Petroleum Company, Peru's largest oil producer. In return for higher taxes and a promised \$300 million in new investment, the firm received permission to exploit a

large tract of land adjacent to its current concession in the northeastern jungle region. Belco Petroleum, another United States company, which operated off the north coast, rejected a similar proposal. Its holdings were expropriated. The García regime has expressed a desire to attract foreign capital, but its dispute with Belco over compensation and recent restrictions on the export of profits have had a chilling effect on potential investors.

García's economic measures have had mixed results. Because of the price freeze, inflation was held at 158 percent in 1985, and will probably be half that rate for 1986. The rapid erosion in real wages has been slowed and some favored manufacturers have increased production. The overall economy, however, remains sluggish.

Peru has suffered shortages and a growing black market, the usual consequences of price controls. These act like a cork, trapping inflationary pressure within a bottled-up economy. The administration intended the controls to be temporary, but García extended his emergency package until the end of 1986, and his critics charge that he has no medium-range plan.

The regime wanted to base economic reactivation on the depressed agricultural sector. But to date, improved credit for farmers has had little impact on production, especially among poor peasants. Higher food prices would be successful, but passing these on to already hard-pressed urban consumers is politically difficult. The government cannot afford additional food subsidies. Its budget is badly strained, and the prices for Peru's mineral exports—the major source of revenue—remain low. Moreover, the external debt has hung like a cloud over the economy, and its uncertain status has complicated longer-range planning.

THE FOREIGN DEBT

García assumed office with a foreign debt of nearly \$14 billion. Belaúnde had made only token interest payments during the previous 12 months, creating a \$1-billion arrearage. Full service on this obligation was impossible, requiring almost all of Peru's \$3 billion in export earnings for 1985 and an estimated 133 percent of earnings during 1986. In his inaugural address, the new President asserted that Peru would pay its debts, but in a manner consistent with the economic growth needed to meet the basic needs of its people. For the remainder of the year, García would remit no more than 10 percent of the nation's export earnings and would seek new realistic terms through direct negotiations with Peru's creditors.⁶

García insisted that Peru would not permit the interference of the International Monetary Fund (IMF), which he lambasted heartily then and in the months that followed. Third world debtor nations normally need the IMF's "seal of approval" to obtain debt renegotiation from their creditors. The standard

⁶A cogent defense of García's basic idea can be found in Frank Orlando and Simón Teitel, "Latin America's External Debt Problem: Debt-Servicing Strategies Compatible with Long-Term Economic Growth," *Economic Development and Cultural Change*, vol. 34, no. 3 (April, 1986), pp. 641-671.

price has been an austerity program fashioned by the IMF that flattens the economy and imposes extreme hardship on the poor. Peruvians have been especially hostile toward the agency because they alone among Latin Americans have tasted two bitter doses of IMF medicine in recent years (in 1977 and 1982).

García charged that the IMF's "incompetence" was partly responsible for Peru's current economic difficulties. While the President continued his feud with the fund, that agency stretched its rules and accepted partial payments on Peru's \$800-million IMF debt. But on August 15, 1986, after García rejected an ultimatum to make up his arrears, the IMF declared Peru ineligible for future loans—usually the kiss of death in the international financial community.

Meanwhile, the regime engaged in a cold war with the private bankers. García made only token payments to them, while pressing for extraordinary concessions: three percent interest, and a five-year grace period followed by a 20-year repayment schedule. He also asked creditors to accept Peruvian products in partial payment. With the nation's credit already ruined, the threat of being barred from future borrowing was moot. In February, 1986, Peru's hard currency reserves, held in a Swiss bank, were converted into gold bullion and flown to Lima, where creditors could not attach them. By holding back on public debt service and, since August, 1986, limiting remittances by private firms, Peru has maintained its foreign exchange reserves at over \$1 billion. If its short-term credit lines dry up, Peru could continue trading, albeit with difficulty, on a cash basis.

On the debt issue, García assumed a leadership role among third world nations, especially in Latin America. Using several international forums, he tried to build support for his approach to the problem of external debt. Only 18 percent of Peru's debt is owed to United States banks. But Washington fears that other debtor nations, where North American exposure is greater, will be tempted to adopt García's "10 percent solution," causing a major financial crisis. The administration of President Ronald Reagan also has been angered by García's loud and persistent condemnation of United States policies toward Nicaragua.

THE DRUG TRADE

The Peruvian leader, however, has won the praise of United States officials for his vigorous war on drugs. Peru's coca crop, produced mainly in the remote Huallaga Valley east of the central Andes, is the source of about half the cocaine that enters the United States, primarily through Colombian intermediaries. Since 1984, Peru's elite, 350-man mobile antidrug unit (Umopar) has been active in this region, uprooting coca plants, smashing "kitchens" for making coca paste, and engaging in deadly combat with the private armies of Peru's drug lords. With a paltry \$5-million annual

budget, Washington has been funding this effort and a crucial crop substitution program for area farmers.

García has greatly intensified this campaign; he made four dramatic raids, dubbed "Operation Condor," against bases hidden in the jungle near the Colombian border. After the air force bombed and strafed these targets, helicopter-borne Umopar commandos struck, smashing more than a score of labs for transforming coca paste into cocaine, disabling 140 airstrips and capturing 14 aircraft used to fly the drug northward.

The drug eradication program has also been enhanced by a major police reform. Peru's three national police forces—the uniformed Civil Guard and the Republican Guard along with the plainclothes Peruvian Investigations Police—were placed under a single director in February, 1986. By that date, the García regime had dismissed some 1,700 corrupt officers, including 120 police generals and colonels.

Presidential candidate García had condemned the Belaúnde government's disregard for human rights, and its one-dimensional, military approach to the guerrilla problem. He promised to "humanize" the armed struggle, engaging the rebels politically and addressing the roots of the insurgency—the peasant poverty and the stagnant economy that denies proper employment to Peru's frustrated youth. SL, meanwhile, denounced the election, threatened to cut off the fingers of citizens who voted, and greeted the new President with a flurry of bombings and assassinations.

García appointed a blue-ribbon peace commission to seek a "dialogue" with the rebels and recommend measures for ending the insurgency. It seemed very unlikely that SL would negotiate, but the administration wanted to claim the high ground and undercut political support for the rebels. In October, the commission recommended a partial amnesty for guerrillas, the repeal of Belaúnde's sweeping and vague anti-terrorist law, the restoration of civilian control over the Ayacucho emergency zone, and steps toward the prosecution of security personnel who had violated human rights. García's military advisers opposed the plan, and he did not act upon it.

The President had reportedly told his generals that he would not look too closely at past human rights abuses but would not tolerate such abuses in the future. The armed forces tested the new President's resolve during his first month in office, balking at an investigation of two reported massacres in Ayacucho. García quickly fired the general in charge of the emergency zone, the commander of the Lima military district and the chairman of the joint chiefs of staff, a purge that infuriated the armed forces.

(Continued on page 36)

David P. Werlich is the author of *Peru: A Short History* (Carbondale: Southern Illinois University Press, 1978) and many articles on contemporary Peruvian affairs.

BOOK REVIEWS

ON SOUTH AMERICA

By **Mary M. Anderberg**

Consulting Editor, *Current History*

ARGENTINA, 1516–1982: FROM SPANISH COLONIZATION TO THE FALKLANDS WAR. By *David Rock*. (Berkeley: University of California Press, 1985. 477 pages, maps, illustrations, notes, select bibliography and index, \$35.00.)

David Rock focuses on economic and political issues in this excellent history of Argentina. He raises a provocative question at the beginning of his study: Why has Argentina failed to measure up to the optimistic predictions of its future made in the nineteenth and early twentieth centuries by European observers? They thought Argentina was a land of riches and opportunity, capable of achieving a standard of living second only to the United States, and destined to become one of the world's greatest nations. But by the 1970's, Argentina was perceived as a nation of riots, guerrilla warfare, assassinations, abductions, torture and widespread mass murder.

By the 1980's, Argentina was seen as a land in economic collapse following its disastrous Falkland Islands War. One-fifth of the people were jobless; there was runaway inflation; the peso had fallen to the level of the German mark after World War I; and there was hunger in a country with over 200,000 acres of the best farmland in the world. How could this happen? What went wrong?

Rock rejects recent explanations that Argentina's present difficulties are rooted in the economic consequences of Peronist policies. His study offers a wider view of Argentina's problems, which, he finds, are rooted in its history and shaped by long-established institutional structures. He treats Argentina as a classic colonial society; the country has always imported most of its capital, and its capital city and leading port dominate the hinterland.

Rock believes that colonial policies are not necessarily detrimental to economic expansion, a high standard of living, and social and political stability; and he regards complementary external partnership as a necessity for colonial states. He notes that all successful former colonial states maintain links to the United States, Japan, the European Economic Community or the Soviet Union. Argentina has failed in this area and Rock thinks that one reason for Argentina's decline was its failure to conserve old links with Europe or to establish new associations.

WEAVERS OF REVOLUTION: THE YARUR WORKERS AND CHILE'S ROAD TO SOCIALISM. By *Peter Winn*. (New York: Oxford University Press, 1986. 328 pages, illustrations, notes, select bibliography and index, \$19.95.)

This is a remarkable historical study of the Chilean revolution and the complex forces that propelled it. On one level it recounts how the actions of the workers at the Yarur mill, Chile's largest textile factory, changed the course of socialism in Chile and led to the radicalization of the revolution. On another level, it analyzes the failures of Frei's Christian Democratic government, the events that led to Allende's election and downfall.

PROMISE OF DEVELOPMENT: THEORIES OF CHANGE IN LATIN AMERICA. Edited by *Peter F. Klarén and Thomas J. Bossert*. (Boulder, Colo.: Westview Press, 1986. 350 pages, selected bibliographies and index, \$36.00, cloth; \$16.95, paper.)

Designed as a college reader, this volume offers representative selections from the writings of the principal theorists and scholars of the various schools of development theory as applied to Latin America: modernization theory; dependency and Marxism; bureaucratic authoritarianism; and corporatism. The introductory essay by Peter Klarén outlines the background of the four theories of Latin American development.

LABOR IN LATIN AMERICA: COMPARATIVE ESSAYS ON CHILE, ARGENTINA, VENEZUELA, AND COLOMBIA. By *Charles Bergquist*. (Stanford: Stanford University Press, 1986. 397 pages, maps and index, \$39.50, cloth; \$14.95, paper.)

This provocative study offers fresh insights into contemporary Latin American society. Bergquist believes that workers, particularly those who labor in the export-producing industries, have played a pivotal role in modern Latin America. Their struggles to secure better working conditions and control over their own lives have fundamentally altered the political and economic development of the countries of the region. The author points out that twentieth-century historiography has failed to recognize the decisive role of labor; it also has failed to recognize the different ideologies and political persuasions of organized labor in the region: Marxist, neo-fascist and liberal. Bergquist focuses on the relationships of four groups of workers to political and economic developments in their nations: the nitrate miners in Chile, the meat packers in Argentina, the coffee producers in Colombia and the petroleum workers in Venezuela. ■

READJUSTING TO DEMOCRACY IN ARGENTINA

(Continued from page 8)

in Punta del Este to make his case.

The boldest initiatives were taken closer to home, when Alfonsín announced a new relationship with Brazil. For the first time since 1964, both countries were governed by democrats, each of whom had great respect for the other. Brazil had left Argentina behind when Brazil's economy grew at record rates in the 1970's; it now exports nearly three times as much as Argentina. Nevertheless, Brazil and Argentina realize that each has something to gain from closer relations with the other. Argentines regard Brazil as a lucrative market and a potential provider of technology, while Brazilians covet access to Argentina's oil and natural gas.

The new friendship bore its first fruit in November, 1985, when the two Presidents announced agreements for cooperation in nuclear power development and the exchange of pharmaceutical and aviation technologies.¹⁰ Then, on July 29, 1986, Alfonsín and Brazilian President José Sarney signed 12 protocols aimed at initiating greater integration of their economies. The protocols included the annual Brazilian purchase of 1.5 million tons of Argentine wheat over the next five years, Argentina's supply of natural gas to Brazil, joint hydroelectric projects, and binational industrial ventures. Most important, they agreed to negotiate a common list of duty-free items whose trade would total US\$750 million annually by 1990.

Argentina, even more than Brazil, needs markets for its industrial products: only 21 percent of its exports in 1985 came from industry, in contrast to 65 percent of Brazil's. But finding markets will not be easy, and Argentine industrialists worry about being overwhelmed by larger and more dynamic Brazil. Today, Brazil supplies 18 percent of Argentina's imports, while Argentina provides only 2.3 percent of Brazil's. Nevertheless, Argentine authorities insist that they must try to develop markets in Brazil, since it is obvious that they cannot grow much more from behind a protectionist barricade.¹¹

Meanwhile, Alfonsín continues to do business with the International Monetary Fund (IMF). Its standby agreements in 1985 and 1986 helped Argentina to meet interest payments and aided renegotiations with the nation's creditors. Characteristically, Argentines have been out of compliance with IMF requirements most of the time, but they have come close enough to keep the loans flowing despite occasional delays in disbursement, as happened in May and June, 1986, when the IMF stopped the flow in order to secure

¹⁰*The Washington Post National Weekly Edition*, May 5, 1986, p. 17.

¹¹*Somos*, July 30, 1986, pp. 12-16.

Alfonsín's commitment to further budget reductions and tighter monetary policy.

In September, 1986, Central Bank director José Machinea and Treasury Secretary Mario Brodeshon went to Washington to renegotiate debts falling due in the second half of 1986 and in 1987, plus a new standby agreement. They had little choice, because the decline in the nation's trade surplus in 1986 had wiped out what it had gained from lower interest rates abroad. In 1986, they asked the IMF for automatic loans, whose disbursement and repayment would be based on world cereal prices, trying to replicate the innovation allowed Mexico that based disbursements in 1987 on oil prices.

A ROUGH ROAD AHEAD

As the year ended, Alfonsín's economists admitted that there was much yet to do, most of it involving fundamental structural changes not easily achieved. Argentines cannot go on paying nearly 54 percent of their export earnings to cover obligations on a \$50-billion foreign debt if they are going to accumulate the capital they need to finance innovation and growth. Nor can they afford to subsidize so many public enterprises whose inefficiencies and high costs continue to drain the treasury. The deficit has been cut by raising taxes, and even though tax evasion persists (only 13 percent of the three million registered taxpayers paid income taxes in 1985), improved collections and higher taxes are not a permanent solution to the deficit problem. And Argentine industry must become more competitive in world markets, because agriculture will no longer sustain growth. But converting enterprises that have grown up behind high tariff barriers and have been subsidized by government consumption of their products is not easily achieved.

The nation's political prospects are better. No one doubts that Alfonsín will become the first elected President to complete his term since Juan Perón managed the feat in 1951. Most Argentines prefer democracy to authoritarianism, although it will be some time, if ever, before they are convinced that they can make democracy work to everyone's satisfaction. ■

PARAGUAY

(Continued from page 28)

two river defense vessels of neolithic origins, three small corvettes, nine coastal patrol craft and a handful of smaller ships. In 1985 it took delivery of a new, large and modern patrol craft, the *Itaipú*, built to order by the Brazilian Navy Shipyards.

For defense, there are some 60,000 reserves and as many as 100,000 men of the National and Territorial Guards, albeit poorly equipped and trained. The 5,000-man police force also has a paramilitary role and includes a 400-man security battalion, which stays close to the President. Finally, there are the *py Ñandí*

("barefoot ones"), the rural Colorado party militia, which in the past successfully fought guerrilla bands that came across the border. Perhaps 15,000-men strong, the *py Nandí* have no real combat value, and act as informants and parade participants.

The army, and only the army, has the ultimate veto power in Paraguay. Although it is not superbly armed, it has a virtual monopoly of weaponry and the patriotic clout absent in so many Latin American armed forces. Any post-Stroessner government will have to make its peace with the generals. ■

UNITED STATES RELATIONS

(Continued from page 4)

ences on the left that want to push Brazil in the direction of full social and economic democracy.

Uruguay and Argentina are, as always, special cases: immensely rich in terms of resources and peoples, and not quite sure of their place in the world. Uruguay has received a breath of fresh air under President Julio María Sanguinetti and again thinks of itself as the Switzerland of South America—although it remains chastised and shaken by a decade of brutal and inefficient military rule, severe economic problems, and a loss of self-confidence.

Under President Raúl Alfonsín, Argentines are probably happier than they have been at any time in the last 60 years. Yet the old phobias remain—i.e., the national preoccupation with the question of why such a rich and well-endowed nation should in modern times have such a sorry political history—and recently a number of the old tendencies toward fragmentation, divisionism and polarization have reappeared. Argentina likes to think of itself as representing the future of Latin America; if that future is a democratic one, then well and good; but should the older tendencies toward societal and political segmentation and disintegration become strong, then the Argentine "model" will offer a negative vision of the future.

Of course, the United States recognizes that democracy will not solve all bilateral problems with its South American neighbors, since countries like Argentina and Brazil have fundamental interests that are different from or sometimes in conflict with United States interests, regardless of the nature of the regime in power at the moment. But both the domestic and the international contexts of these relations are surely made easier when United States diplomats deal with a democratic government. Hence for both moral and pragmatic reasons the United States has pursued a strong pro-democracy foreign policy in South America in recent years, a strategy that has happily served, for the most part, to benefit both Latin America and United States national interests.

DRUGS

Drugs have become a major issue in United

States–South American relations and in the internal affairs of several of the South American nations. Until mid-1986, the United States believed that since it could not do much to change United States consumer habits, it would try to disrupt the flow of drugs from South America. But the problems with this approach are mammoth. Successes in one country usually result in the transfer of production to another. The United States has inadequate monitoring equipment and personnel. Latin American farmers grow drugs very profitably. Production is decentralized (which prevented success for the United States equipment sent to Bolivia). Many South American military and civilian officials are in league with the drug runners. And United States diplomatic missions are unwilling to crack down too hard on countries with which they need to maintain good relations.

South Americans frequently have very different views of the "drug problem." They see it as a United States problem that the United States must solve, not one with which they should be overly concerned. In South America, drugs are now a major cash crop (often the major cash crop), replacing coffee or bananas, and an important source of sorely needed foreign exchange. Drug payoffs to bureaucrats and military men provide a supplement for their meager salaries, thus relieving hard-pressed governments of any responsibility to pay them more. Cocaine and marijuana crops enable South American peasants to raise their income levels by several hundred percent as compared with other crops. And coca leaves have always been grown and used in the Andes, enabling the poor to quench appetites and overcome pain—without (although this is highly debatable) producing permanently harmful effects. Nor do South Americans have the North American sense of Calvinist guilt and sin, so they do not always view the use of coca plants as a moral evil.

In addition, United States officials in the field do not always see the drug issue in the same terms as most Americans. For the officials, the drug traffic is not so much a matter of moral crusades as of very practical foreign policy concerns. Drugs are so important in South America that those in the drug trade can destabilize governments that do not acquiesce; they can fund guerrilla movements on a massive scale; they can corrupt entire police forces or civil bureaucracies. Drugs can also sow further discord in the United States and in United States–South American relations (which helps explain the linkage between the drug dealers and various left-wing groups); they can even establish sovereignty for the drug kings by enabling them literally to capture power for themselves in some country or island. From the foreign policy point of view, these are the real stakes involved in the drug traffic.

Nationalism is intense in all South American countries, and it seems to be becoming more virulent.

Nationalism crosses class and age barriers (though it seems to be particularly appealing to young people), and it can take both left- and right-wing forms. The debt crisis and Latin America's downward economic slide of the last few years have further exacerbated nationalistic xenophobia.

Nationalism and anti-Americanism in South America frequently go hand in hand, a fact that is recognized and manipulated by left-wing forces. There is little sympathy in South America for the Soviet Union or Cuba or for the Nicaraguan revolution. But while very few South Americans sympathize with communism, the Communists have been able to exploit powerful strains of nationalism and anti-Americanism. By attaching themselves to nationalist and anti-American banners and movements, the Communists are able to enhance their position. Nationalism has become a major issue in United States-South American relations.

Few North Americans comprehend that some South American countries feel so strongly about the issues of nationalism and sovereignty that they may decide to repudiate those loans regardless of the consequences. Their countries would suffer, they know; but the struggle would be glorious, it would represent heroic death for a noble cause, and such martyrdom would enable them to go down in flames to wild global applause. Thus seen, South American nationalism is capable of great destruction as well as great accomplishment; it is not just a set of rational arguments over tomato quotas and computer import restrictions.

CONCLUSION

A survey of the problems, the sources of mutual misunderstanding, and the agenda of contentious issues in United States-South American relations indicates a strong and imminent potential for rupture. One should not underestimate the frictions. And in reading the country essays that follow, one finds that other bilateral issues often peculiar to individual nations and their relations with the United States are additional sources of discord.

And yet when viewed in the larger picture or compared with other, past eras, United States-South American relations are improving. There is now a certain maturity in United States-South American relations. Today there are few grandiose and therefore unrealistic dreams, like the Alliance for Progress. Beneath the often partisan posturing and nationalistic rhetoric that pass for discussion both in the United States and in South America, some policies are calm and pragmatic. Although President Reagan sometimes sounds extreme in his pronouncements aimed at a domestic political audience, the actual practice of United States policy has been more centrist, moderate and restrained. Latin American leaders also have domestic constituencies, but as democratic Presidents they have tended to be prudent, staking out inde-

pendent positions but recognizing that in the Western Hemisphere they must ultimately reach an accommodation with the United States.

Such pragmatism on both sides offers reason for hope. Some issues will continue to divide and separate the United States and South America. But there are also concrete interests that will bring them together. On such a realistic basis, more mature and sophisticated relations can be erected. ■

PERU

(Continued from page 32)

SL soon entered a tactical alliance with the Lima-based Tupac Amaru Revolutionary Movement (MRTA), a smaller, less dogmatic group that has been active since 1984. The two groups then began an orgy of terror, making implementation of the peace commission's other proposals inappropriate. The panel resigned in January, 1986, and García appointed a new commission.

On February 6, 1986, after six bloody weeks, with 150 bombings and 71 deaths in the capital, García decreed a state of emergency for Lima and the adjacent province of Callao. This measure suspended several civil rights, imposed a curfew, and gave the armed forces control over public security. But the attacks continued. Terrorists bombed embassies, department stores, hotels and theaters. They kidnapped businessmen, and murdered military and police officers, civilian officials and leaders of APRA. Some of these actions appeared to be the work of a new, right-wing group, the Green Path, comprised of recently cashiered police officers. On May 27, SL dynamited the important Mal Paso railroad bridge in the central Andes.

Suspected and convicted SL members detained at three crowded Lima-area prisons staged a coordinated uprising on June 18-19, 1986, as García prepared to host the seventeenth Socialist International congress. These highly disciplined cadres had for months kept prison officials out of their segregated cellblocks, where they had prepared tunnels and trenches, and fashioned knives, spears, crossbows and even crude flamethrowers, fueled by the kerosene provided for cooking. The rebellion ostensibly was a protest against the government's plan to move the guerrillas to a new, more secure prison. But the rebels also wanted to embarrass the President, and believed that he would not act forcefully while many prominent world leaders were present.

García put the military in charge of suppressing the uprising and authorized them to use "maximum force." Guards quickly quashed the movement at the Santa Barbara Women's facility, with the loss of two lives. But at El Frontón, the maximum-security island prison off Callao, the fighting raged for 18 hours. Marines, supported by helicopter-gunships, demolished the mutineers' cellblock. As many as 90 percent of the

300 rebels died in the assault. Units of the Republican Guard stormed the Lurigancho penitentiary, killing 126 inmates. At least 100 of the 126 were executed by guardsmen after they surrendered.

García ordered the prosecution of 95 Republican Guards implicated in the massacre and fired their commander. But the President did not take action against the army general who directed the operation at Lurigancho and who allegedly witnessed the murders. Nor did he heed demands for an inquiry regarding the use of excessive force at El Frontón. The new peace commission resigned.

SL vowed to kill ten Apristas for each of their comrades who had died in the prisons. They launched a new offensive in Puno, the southernmost highland department. On June 25, a time bomb killed 7 persons and wounded 38 on a tourist train preparing to leave Cuzco for the Inca ruins at Machu Picchu. In August, García imposed a state of emergency on two provinces of Pasco department, in the central highlands, bringing about 40 percent of Peru's population under military control.

The SL insurgency is likely to be García's Gordian knot: Peru may have to live with a guerrilla war for many years. Nonetheless, the President must not allow his response to become solely military; nor can he permit his security forces to become as brutal as the insurgents.

Meanwhile, Alan García has continued to campaign through frequent public appearances and "balconades" (*balconazos*), candid, extemporaneous speeches to crowds gathered below a window of the presidential palace. For many Peruvians, García has become simply "Alan." His wide margin of public support strengthened his hand as he confronted Peru's creditors and afforded him some protection against a military coup.

But real progress against the nation's major problems will require García to spend his political capital and make some tough decisions. The future of Peru's external debt will be determined soon, and the regime may be able to institute a coherent, medium-range economic program. ■

BOLIVIA

(Continued from page 12)

The overall approach was to open up the economy for the private sector and to diminish the role of the state. For these reasons many saw 21060 as a rightward shift by Paz, which for all practical purposes put an end to the revolution he helped launch in 1952. In fact, decree 21060 was really a shift in emphasis within the original state capitalist model that still defines the major thrust of political economy in Bolivia.

The labor left immediately sought to mobilize against the package. However, in anticipation of this action the government declared a state of siege and moved

to arrest and dispatch to internal exile a substantial percentage of the labor left leadership. The already isolated and politically weakened labor left was brought up short by the government's swift maneuverings, and its protest and strike actions collapsed.

Paz followed these actions by a deft political move in which he challenged Bánzer and the ADN to support his program, which, in effect, was a more severe version of the ADN's economic program. Discussions were opened in early September and by October 16 they ripened into a decision to enter into a formal political pact, "the pact in support of democracy." Under its terms, the ADN agreed to support the government in Congress and in return received a phased-in program of access to control certain municipal governments and, later, a number of key state agencies.

The pact was one of the most important political developments in Bolivia since 1978. Through it, Paz was able to bridge the gap between the executive and the legislature that had bedeviled all previous governments and to provide a base of political support for the development of a long-term policy of managing the economy. Thus far the pact has held. With it as a base, the government won other legislation. Most important was the approval of the government's budget and a sweeping tax code passed in May. At the same time, the ADN pushed through a new electoral law that will diminish the role of small political parties, especially on the left.

In addition, the pact, which has received the implicit blessing of the military, has provided the government with the political muscle to deal with the opposition. Thus in August, 1986, when miners protesting plans to shut down mines and reduce the leader force in the state mining corporation tried to lead a protest march on La Paz, President Paz was able to declare a state of siege, to round up labor left leaders and, finally, to force the workers into submission.

Thus far, the government's major achievement has been to reduce inflation dramatically and to stabilize the exchange rate at about 1.9 million pesos to the dollar. Stabilization, however, has been bought at a fearsome cost to the living standards of the lower classes and a goodly portion of the middle class as well. The tensions produced by the costs cannot be contained indefinitely. Aside from pressure from the labor left, pressure is also mounting from regional civic associations and public employee unions. In addition, party cadres are disturbed by plans to reduce the size of the state and hence the patronage pie that, in the case of the MNR, they must now share with the ADN. Sooner rather than later, the government must post some success in improving the economy, which continued to contract in 1985-1986.

Likewise, whatever its will and political skill, the Paz government cannot solve the economic problem on its own. Because of the collapse of both its mineral

and oil industries, Bolivia needs substantial external help to take it through a transition to a new base of export products. Not surprisingly the Paz government has looked to external actors, especially the IMF and the United States government, for help.

The IMF has responded positively to the economic program embodied in decree 21060 and to important changes in the government's economic team. In January, 1986, Paz brought into his Cabinet a number of "political independents" from the private sector known for their technocratic expertise. In April, an agreement was reached in principle for a US\$57-million standby loan specifically to help make up for declining revenues from mineral, especially tin, exports. The new economic policy is predicated on the view that the era of tin is over in Bolivia and that a new base for the economy must be found. But aside from a problematic product like natural gas, it is by no means clear what that new export base will be.

THE DRUG TRADE

The response of the United States is, therefore, most important if the Paz government is to manage the economic crisis and to maintain a democratic political system. Aside from rhetorical flourishes, the United States has shown little interest in Bolivia other than in controlling the outflow of cocaine. The United States brought tremendous pressure to bear on Siles to reduce the skyrocketing production of coca plants as more and more peasants moved to cash in on the high prices for coca leaves. That pressure has continued under Paz.

The Bolivian government is not averse to doing something about cocaine because Paz and others have become concerned with the growing economic and political power of the cocaine barons. Hence, in July the Bolivian government accepted the arrival of United States helicopters and some 160 United States military personnel to be used in a program to identify and raid cocaine production facilities in the vast tropical interior. Preliminary indications are that while no traffickers were captured, the action drove them out of business and thereby led to a sharp drop in the price for coca. If this holds, the government expects a drop in acreage producing coca plants as peasants are forced out by the market. This was in fact the strategy behind the policy and marked a shift from past programs aimed directly at peasant cultivators.

Such short-term success could, however, have serious economic and political consequences for the Bolivian government. Coca has become Bolivia's major export product and earns about \$600 million a year in crucially needed foreign exchange to pay for the nation's imports. Unless alternative sources of income are found, the long-term consequences of the repressive effort are obvious. Moreover, unless other outlets are found, sharp political protest can be expected from

peasants experiencing dramatic drops in income, not to mention laid-off miners and other workers who were drifting toward coca farming and other related activities to sustain themselves.

Recognizing its difficult position, the Paz government has petitioned the United States government for \$100 million in direct aid to sustain the anticocaine effort and maintain the economy. Although publicly happy with the results of the effort launched in July and "sympathetic" to the Bolivian request, thus far the administration of President Ronald Reagan has not put up any major aid package, let alone the requested \$100 million.

There matters stand for the moment. The Bolivian government struggles to end the economic crisis and to maintain a democratic political system. However, in spite of its initial political success, the Paz government faces mounting internal pressures even as its policy options become more limited. The question now is to what extent Washington is willing to back its rhetorical commitments to democracy in Bolivia and elsewhere in Latin America with crucially needed economic aid. ■

PINOCHET'S CHILE

(Continued from page 20)

States Southern Command in Panama, attempted to appeal to the professionalism and pride of officials in the Chilean armed forces, reportedly suggesting that improved military relations might result if Chile implemented a more rapid democratization process. Yet these efforts were diluted by the approving signals the Defense Department continued sending to Pinochet in the form of joint military exercises, educational exchanges for officers, and a lucrative arrangement to develop Chile-owned Easter Island as a landing strip for American spacecraft.

On the economic front, the United States lacked leverage with Pinochet because of a 1977 ban on United States aid, ordered during the administration of Jimmy Carter as a protest against human rights abuses. Instead of aid, officials turned increasingly to the arena of multilateral lending, where United States votes carry considerable weight. In June, 1985, United States abstention on several loan votes was decisive in pressuring Pinochet to lift the seven-month-old state of siege.

By July, 1986, with the Rojas death reverberating in Washington and with Pinochet issuing strong hints about remaining in office indefinitely, the administration was seriously considering voting against a new series of proposed loans unless Chile's human rights record improved and its transition plans moved forward with alacrity. In congressional testimony, Elliott Abrams, the normally hawkish assistant secretary of state for inter-American affairs, remarked that if he had to recommend how the United States should vote

on the upcoming loans, "I would have to recommend no."⁴

The news that Washington was considering opposing the upcoming international loans also drew a barrage of criticism from Chilean and United States businessmen in Santiago, who contended that such action would unfairly punish one of the few Latin American countries that had made an impressive effort to repay its foreign debt. By October, despite continuing pressure from Congress to oppose the loans, the administration was no longer pressing other governments to reject them, making approval likely even without United States support. Privately, United States officials called the attack on Pinochet a "major setback" for the opposition, and by extension for United States policy toward the Chilean regime.

A final factor in the regime's favor is timing. With the 1989 election only two years away, many Chileans are resigned to the constitutional transition scheme being implemented by the government and are hopeful that the armed forces will prevent Pinochet from succeeding himself. Even if it is not swift, moreover, the carefully controlled official transition seems reasonable to many citizens who still remember with alarm how Chile's long-established balance of congressional and executive power collapsed into chaos and violence in the last months of Allende's presidency.

PINOCHET'S TERM

As now written, the constitution provides that Pinochet will remain in office until 1989, when the junta will choose a new candidate for the presidency. If members of the junta cannot agree unanimously on a choice, the issue will go to the National Security Council, which consists of junta members and officials appointed by Pinochet. This means that even if the junta does not want Pinochet as the candidate, he can still engineer his own reelection. The official candidate must be ratified in a yes-no national plebiscite but, should he lose, Pinochet will remain in office another year while competitive elections are prepared. In any event, Pinochet is legally permitted to keep his powerful position as commander in chief of the armed forces through 1993. A new Congress will also be chosen, with the President designating a substantial number of Senate seats.

Today, with the democratic opposition intimidated and the official election process well under way, Pinochet has apparently won the battle to remain in office through 1989. With each passing protest, the

⁴After the assassination attempt, however, the momentum of United States pressure stalled. American analysts, surprised by the quantity and quality of weapons uncovered by Chilean authorities during the summer, began to scrutinize more sharply the potential violence from the left, possibly abetted by Cuba or other socialist powers. When the state of siege was declared, United States criticism was barely audible.

popular street chant heralding the regime's imminent demise—"Y va a caer!" (It's going to fall!)—seems more and more like wishful thinking.

In recent months, the 1980 constitution has turned into a weapon in the battle for Chile's political future that could well backfire on the general. Many democratic leaders, convinced that Pinochet could win a plebiscite only by fraud, have been pressing for a constitutional amendment that would permit open elections with rival candidates. Even some of the general's own advisers, afraid he would lose a plebiscite, have been urging the electoral option.

As the constitution has evolved into a potential plus for its longtime detractors, however, Pinochet has kept his opponents off balance by refusing to make clear his plans for 1989, declaring repeatedly that he wants only to see his regime's ideas—not necessarily its personnel—continue in power. Pinochet appears to be banking on an improvement in the economy and a continued escalation in leftist terrorism to give him the opportunity to present voters with a choice between himself and chaos. The opposition, on the other hand, believes that continuing high unemployment and sharpening political polarization will force the public to vote against continued military rule.

Today, both sides are loath to make concessions or commitments in case time proves them wrong. The democratic opposition has threatened to boycott the 1989 elections as tainted and predetermined, but if they do so, civilian politicians will forfeit their chance to run for office. Pinochet has said he will not permit any reforms in the constitution, knowing that they might open the door to a reconsideration of the entire transition process, threaten his only formal claim to legitimacy, and force him to accept a legal defeat at the polls. But if military pressure continues as election time approaches, the President may well agree to some changes in order to ensure the broader backing of the armed forces.

Perhaps the most significant development in favor of a genuine transition to democracy, paradoxically, stems from the September assassination attempt. In the short term, the incident clearly benefited Pinochet and hurt his political opponents. But by clarifying the fact that certain Communist groups are willing to use violence, it may also have put to rest the most divisive issue among the forces of Chilean democracy: whether they should ally with the extreme left in strikes and protests to force the regime from power.

By placing the Communist left outside the pale of legitimate political participation, the assassination attempt helped remove a serious obstacle to cohesion within the democratic forces. In October, Gabriel Valdés, the president of the Christian Democratic party, stated that there would now be "no kind of pact with the Communist party or any sector that espouses the path of arms or terrorism." Having abandoned hopes

of a coalition with the Marxist left, centrist leaders are in a better position to persuade rightist allies that they have nothing to fear from civilian control; thus they add weight to efforts to press the armed forces for a return to genuine democracy.

As Pinochet and his democratic opponents position themselves for 1989, however, the most volatile issue in Chile's political future remains unresolved. Will the revolutionary left and the military regime continue to complement each other in an accelerating spiral of guerrilla and state terrorism, squeezing the nonviolent opposition into an increasingly narrow political space and casting hopes for civilian transition into deeper jeopardy? Or will the democratic opposition, with increased support from conservative elites, persuade the armed forces that continued dictatorship may destroy Chile's stability and that Pinochet must not be permitted to remain in power? Over the next three years, the answers to those questions could mean the difference between Chile's relatively smooth return to civilian rule and its degeneration into violence. ■

COLOMBIA

(Continued from page 24)

the Colombian political system: the progressive erosion of the regime's legitimacy. While the vast majority of Colombia's people are clearly better off economically today than they were when the National Front was inaugurated in 1958, the political system has failed to institutionalize mechanisms of political participation.

Guerrilla violence is an extreme manifestation of this underlying problem of institutional legitimacy. The traditional Liberal-Conservative party leadership has retained its long-standing dominance in the political-electoral arena, as evidenced by the parties' continuing success at the polls and the relative electoral weakness of the left. However, during the last 25 years a wide gap has opened between what is known in Colombia as *el país político* (the political leadership) and *el país nacional* (the nation)—between the issues and agendas of the country's political elites and the demands, concerns and expectations of the general Colombian population. This gap is reflected in the nation's high rates of electoral abstentionism, in rising levels of mass political apathy and cynicism, in declining rates of voter identification with either of the traditional parties, in the emergence of an urban swing vote, and in widespread citizen distrust of the nation's political institutions and leadership.¹²

¹²Gary Hoskins, "Colombia Under Stress: A Presidency Lamed by Instability," *Caribbean Review*, vol. 15, no. 1 (Spring, 1986), pp. 7-9, 34.

¹³See Bruce Michael Bagley, "The State and the Peasantry in Contemporary Colombia," in Bagley et al., eds., op. cit.

¹⁴Hoskins, op. cit., p. 8.

The gap is also reflected in the dramatic increases in political praetorianism that the country has experienced in recent decades: the radicalization of the peasant movement, the explosion of urban protests, the growing militancy of the urban labor movement, and the upsurge in both rural and urban guerrilla activity.¹³

Some signs of rising levels of political disaffection among segments of the urban middle class have surfaced in recent years. In the 1982 elections, for example, Luis Carlos Galán and his dissident Nuevo Liberalismo (New Liberalism) faction successfully appealed to urban middle class voters disaffected with traditional Liberal party machine politics. By rallying discontented Liberal voters against the party's presidential nominee, former President Alfonso López Michelsen, Galán split the Liberal vote, thereby indirectly contributing to the electoral victory of Conservative presidential candidate Belisario Betancur.¹⁴

Although this middle class electoral revolt was not repeated in the 1986 presidential race, in part because of Galán's own political mistakes and because of widespread Liberal animosity toward the right-wing Conservative candidate, Alvaro Gómez Hurtado, middle class alienation from traditional machine politics and clientelism in both parties remains latent and could resurface.

All these signs portend a progressive erosion of regime legitimacy and stability. The National Front and subsequent arrangements have failed to accommodate the new social groups and classes generated by capitalist modernization in Colombia over the last quarter-century. The consensus among the political representatives of the dominant classes has been severely strained by the emergence of these new contenders. The traditional mechanisms of political control—party affiliation based on "inherited hatreds," patrimonialism and clientelism—have lost much of their effectiveness, especially in urban areas. The result has been an increasingly volatile electorate and rising levels of political praetorianism. Under Liberal President Julio César Turbay (1978-1982), the state resorted to intensified military repression (the national security statute) to suppress the guerrillas, without much real success. Under President Betancur, peace negotiations were undertaken with the rebels, accompanied by mild political reforms to broaden participation in the system, with partial success. At the outset of the Barco presidency, the country's leadership faces a critical juncture in which it must either move to institutionalize new democratic channels of participation or confront even higher levels of praetorianism and political instability.

The international arena also presents important political challenges. For example, President Betancur's emphasis on Contadora and the search for a negotiated peace in Central America has generated

few concrete results and is increasingly at odds with the thrust of United States policy in the region. On the one hand, to persevere within the Contadora process runs the risk of growing diplomatic frictions with the administration of President Ronald Reagan at a time when Colombia requires healthy commercial and financial relationships with the United States. On the other hand, to abandon Contadora and embrace United States Central American policies may offend nationalist sentiments and undermine Colombia's moderate and independent image abroad.

CONCLUSION

In economic terms, Colombia's balance sheet is impressive. Despite continuing poverty among some sectors of the population, particularly in the countryside, the great majority of Colombian citizens are unquestionably better off in the mid-1980's than they were a decade or two ago. Moreover, in 1986 the country was gearing up for a new phase of economic expansion.

The political side of the ledger is more complex and contradictory. On the one hand, the Colombian regime boasts an enviable record of regular elections and competitive rotation of the traditional parties. On the other, there are abundant signs of the erosion of regime legitimacy, lack of institutionalization, and the rise of praetorianism: from the cyclical radicalization of the peasant movement, through intensifying urban poor and working class protests and the rise of an urban swing vote, to the spread of rural and urban guerrillas and drug-related violence and corruption.

While none of these tensions threaten the Colombian system with a short-term breakdown, an unwillingness or inability on the part of the country's dominant elites to address the system's underlying legitimacy problems could in the medium term place in jeopardy the very real economic and political progress that Colombia has already achieved. The political challenges facing the Barco administration constitute a formidable agenda, but by no means an impossible one. In light of Colombia's impressive record of gradual change and stability over the past quarter-century, there is strong reason to presume, but not to guarantee, that the system will meet the challenges of the late 1980's without breakdown. ■

BRAZIL

(Continued from page 16)

can block the importing of microprocessors, ranging from the most simple component that goes into a toaster

to a powerful 30 megabyte personal computer. Minister of Communications Antônio Carlos Magalhães has complained loudly that SEI has been blocking plans to modernize his ministry. Senator Roberto Campos, former planning minister under the military regime, is indefatigable in his campaign against the law, which will not only retard the Brazilian computer industry but will also provide inferior technological service to consumers at an extremely high cost.

Clayton Yeutter, United States trade representative, met with Brazilians in Geneva in mid-1986 to try to work out the differences. The basic argument of the Reagan administration has been that the Informatics Law places an unwarranted restraint on free trade. This point was reiterated by President Reagan and his closest advisers during Sarney's September, 1986, visit to the United States. The Brazilians have argued that the law was designed to give time and space for the Brazilian computer industry to grow. The United States would like firm guidelines and a timetable for the enforcement and the future of the law. At the moment, the law is scheduled to expire by 1992. The Sarney government, supported by the informatics industry, the electro-electronic industry, and the military, seeks an extension.

The law does not permit joint ventures but instead encourages a foreign minority partnership (up to 30 percent of the capital) that should serve to transfer technology at no cost to the Brazilian partner. The law is vague, however, about the procedures by which SEI regulates the importation of chips and other components.⁹ Complaints have been rampant that the SEI has become a closed clique of nationalistic technocrats who take the law into their own hands to satisfy nationalistic egos. One high-ranking military officer warned a visiting United States official that undue pressure from Washington on the issue could destabilize the Sarney regime, an infant democracy in Latin America. At Sarney's urging, SEI went along with the decision to grant copyrights to software, but this was not enough to mollify the Reagan administration.

Both Brazilian and American officials have failed to see the heart of the issue. Sovereignty, nationalism, free trade and undue pressure are not the problem. The Informatics Law demonstrates that the United States and Brazil have lost a vital political channel of arbitration; both sides have dwelt too much on principles. The global computer industry is a \$300-billion business and is projected to reach close to \$1 trillion by the end of the century. The United States is the world leader and will remain so. It has been investing close to three percent of its GNP (the same percentage as Japan, whose GNP is about half that of the United States), easily outdistancing all West Europe and the Soviet Union.¹⁰

The Brazilian market reserve therefore represents a small portion of the global market and should be

⁹*Istoé*, August 20, 1986. For the Brazilian debate on the informatics policy see Rabah Benakouche, ed., *A questão da informática no Brasil* (São Paulo, 1985), especially chapters by Edison Dytz, the first director of SEI, Senator Roberto Campos, and Senator Severo Gomes, a PMDB industrialist.

¹⁰"The High-Tech Race," *Fortune*, October 13, 1986.

viewed as a transitory political decision made by the military in 1981, in part to provide Brazil with computer capabilities in weapons systems and in part to appease the growing opposition from civilian society. The ploy has worked. The civilian regime replaced the military and has been upholding the military goal of informatic independence.

Brazil's informatics policy, regardless of its current merit, will contribute to the increased productivity of that country's economy. This ought to be the objective of United States negotiations, not the short-term inconvenience of United States access to the market. A poor Brazil is of no value to American business. It is curious that the business-oriented Reagan administration understands less than business itself: Hewlett-Packard chose to merge with a Brazilian firm to produce computers and components as a junior partner in 1986; IBM was considering a similar move at mid-year.

THE 1986 ELECTIONS

The mid-November elections resulted in an unexpected landslide victory for PMDB; 22 of 23 governors (all except the state of Sergipe), 44 of 72 senators, and between 260 and 280 of 487 federal deputies. These results will certainly strengthen Brazil's bargaining position in the international community and will have far-reaching consequences for the country's political system. With the leading conservative party, PFL, debilitated and half a dozen minor radical parties struggling for survival, PMDB runs the risk of becoming as monolithic and awkward as the military-created ARENA party of the 1960's.

Officially, Sarney stated many times that he would remain neutral in the November, 1986, elections, but his former and perhaps true PFL supporters in the government openly worked against PMDB candidates. In late August, the President was the guest of honor at the PMDB's first national convention since he came to power. Although his presence graced the convocation and was interpreted to signify his adherence to the party, Sarney was openly warned by Ulysses Guimarães that although it was the PMDB that placed him in power, the party should not be confused with the government.¹¹

For more than two decades, Guimarães, the titular head of the PMDB, has been president of the Chamber of Deputies; he is known as "Mr. Opposition." Guimarães found it hard to swallow Tancredo and even more difficult to accept Sarney. But swallow he did, although the relationship between the speaker and the President has been oscillating between cold and superficially warm ever since. Now Guimarães has emerged as the field marshal of national politics,

finally consolidating his position and seeking ways to undercut Sarney's power.

A POSTSCRIPT

Under Sarney's administration, Brazil has embarked on a brave new journey on which the future well-being of 138 million Brazilians depends. Sarney's ambitious economic reform and its accompanying "packages" can break once and for all the decade-long inertial inflation and free-spending syndrome of the federal government. Key administrative reforms must be implemented if the government hopes to realize annually balanced budgets. Brazil has over four million public employees in the federal government alone, half in the federally owned parastatals. Electoral results notwithstanding, the Sarney government will need to renegotiate the remaining \$60 billion of its external debt in 1987.

Within a week of the elections, Sarney spoiled PMDB's victory by decreeing Plano Cruzado 2, which raises the prices of some consumer goods by 25 to 120 percent. Many PMDB politicians quickly criticized the government's bad timing. It remains to be seen how the power axis of the Sarney government in Brasilia and the cadre of PMDB governors throughout the rest of the country will balance their individual political and partisan needs in the months to come.

The FND or National Development Fund, if the projection holds, will replenish the national treasury by some Cz\$200 billion (or US\$14.5 billion at the current rate of exchange) over the next three years. If used prudently, this fund can push Brazil upward another notch toward economic self-sufficiency. The Reagan administration, preoccupied with the Soviet Union and post-Icelandic arms talks, will have less time to confront Brazil in trade issues, which may provide a much needed respite from the informatics imbroglio. Brazil must clarify the vague terms of the Informatics Law to remove the one stumbling block to better bilateral relations. Brazil needs to make concessions to the United States, its largest customer and investor, while the United States needs to make concessions to this promising democracy. Washington can demonstrate its seriousness about encouraging the restoration and strengthening of democratic regimes elsewhere in the hemisphere by showing patience and tolerance toward this Latin American giant. ■

ERRATA: In Dorothy Solinger's article in our September, 1986, issue, line 3 of footnote 2 on page 261 should read "4.52 million self-employed workers."

In Alice Gorlin's article in our October, 1986, issue on the Soviet Union, line 12 in the right column on page 325 should read "and so did a number of consumer goods." Line 24 in the right column on page 344 should read "A more far-reaching reform than Gorbachev envisages." We regret the errors.

¹¹*Senhor*, September 2, 1986.

THE MONTH IN REVIEW

A Current History chronology covering the most important events of November, 1986, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Arms Control

(See also *U.S., Foreign Policy*)

Nov. 6—In Vienna for the Helsinki accords meeting, Soviet Foreign Minister Eduard Shevardnadze and U.S. Secretary of State George Shultz end 2 days of talks on the arms control proposals made at the Iceland summit meeting held last month; both men express disappointment over this meeting's lack of progress on arms control.

Nov. 12—Arms control talks between the U.S. and the Soviet Union end in Geneva; interim talks will be held in December.

Conference on Security and Cooperation in Europe

Nov. 4—The 3d full conference on the Helsinki accords opens in Vienna.

Council for Mutual Economic Cooperation (Comecon)

Nov. 10—In Moscow, the 10-member Soviet trade bloc meets for the 1st time since June, 1984.

European Economic Community

(See also *Libya*)

Nov. 10—Ten of the Common Market's 11 members vote to ban new arms sales to Syria; Greece is the only member to vote against the measure, which was proposed by Great Britain.

Iran-Iraq War

(See also *Iran*)

Nov. 12—The official press agency reports that at least 25 people were killed today by Iraqi bombing raids in Isfaha.

Nov. 26—An Iranian missile explodes in downtown Baghdad, killing 48 people and wounding 52.

Organization of American States (OAS)

Nov. 14—The OAS foreign ministers meeting in Guatemala City approve a resolution calling for the Contadora nations to continue their efforts to secure peace in Central America.

Organization of Petroleum Exporting Countries (OPEC)

Nov. 14—In Quito, Ecuador, the cartel's pricing committee announces that it is recommending that OPEC raise petroleum prices to \$18 a barrel when it meets in December.

United Nations (UN)

(See also *Afghanistan*)

Nov. 20—The General Assembly votes 79 to 28 to condemn the U.S. bombing raid on Libya in April as a violation of international law; the U.S. said the bombing was in retaliation for Libyan-sponsored terrorist attacks on U.S. nationals.

The World Bank approves a \$250-million loan to Chile; the U.S. abstains on the vote for the loan.

AFGHANISTAN

Nov. 11—The UN issues a human rights report on Afghanistan that finds widespread atrocities committed by Soviet troops; the report says at least 5 million Afghan refugees are now living in Pakistan.

The government's radio station reports that Babrak Karmal has resigned from the presidency and from mem-

bership in the Politburo; in May he was replaced as party leader by Najibullah.

Nov. 16—Guerrilla spokesmen say that Afghan and Soviet forces bombarded guerrilla positions near Pakistan, killing and wounding "dozens" of guerrillas; the guerrillas reportedly shot down 2 Soviet helicopters.

Nov. 23—Jahi Mohammad Chamkani is named acting President.

Guerrilla sources report that Soviet and Afghan troops recently overran a guerrilla base in eastern Afghanistan.

ANGOLA

(See *South Africa*)

ARGENTINA

(See also *UK, Great Britain*)

Nov. 17—President Raúl Alfonsín meets in Washington, D.C., with U.S. President Ronald Reagan.

AUSTRIA

Nov. 23—Preliminary results from yesterday's parliamentary elections show that the Socialist party and the People's party each suffered significant losses but are still the largest parties in Parliament; the Green party wins enough votes to enter Parliament for the 1st time.

BANGLADESH

Nov. 10—The military government announces that martial law has ended and that the constitution is being revived.

Nov. 30—President H. M. Ershad appoints Law Minister Justice A. K. M. Nurul Islam Vice President; he dismisses the home minister and replaces him with Deputy Prime Minister M. A. Matin.

BRAZIL

Nov. 17—Results from the November 15 elections show that the ruling Brazilian Democratic Movement party and its coalition partner have won the governorships of all 23 states; this is the most sweeping party victory in Brazil's electoral history.

Nov. 27—President José Sarney rejects Finance Minister Dilson Funaro's resignation, which was tendered yesterday because of protests over the government's price and tax increases announced November 21.

CANADA

Nov. 7—The government imposes a large tariff on U.S. corn; the government says the U.S. government subsidizes the price of corn grown by U.S. farmers.

Nov. 18—The government says that the personal tax records of 16 million Canadians were stolen from a government tax office last month and returned 3 hours later.

CENTRAL AFRICAN REPUBLIC

Nov. 5—The government says it will try former Emperor Jean-Bedel Bokassa, who returned to the country from exile last month; Bokassa has already been sentenced to death in absentia.

CHAD

- Nov. 14—The government says its forces shot down a Libyan fighter jet and killed over 200 Libyan soldiers in fighting in northern Chad near Fada.
- Nov. 19—The Democratic Revolutionary Council, the Libyan-backed guerrilla force fighting the government, announces that Acheikh Ibn Oumar has replaced Goukouni Oueddei as head of the guerrilla group.

CHILE(See *Intl, UN*)**CHINA**

- Nov. 5—Three U.S. warships dock at Qingdao in the 1st visit by U.S. warships in 37 years.
- The U.S. Defense Department announces that on October 30 China agreed to purchase \$550-million worth of U.S. radar and other electronics for Chinese-built F-8 fighters.

EGYPT

- Nov. 9—President Hosni Mubarak dismisses Prime Minister Ali Lutfi and replaces him with Atef Sedki; Mubarak reportedly made the change because of Lutfi's inability to correct Egypt's economic problems.

FRANCE

- Nov. 5—The government approves a 5-year, \$71-billion military spending plan; the plan includes money for France's 1st nuclear-powered aircraft carrier.
- Nov. 10—French television reports that more than 10,000 tons of chemicals have spilled into the Rhine River because of a fire at a chemical warehouse in Basel, Switzerland, 10 days ago; France, West Germany, Switzerland and the Netherlands are affected by the spill.
- Nov. 11—Prime Minister Jacques Chirac publicly thanks Syria for its role in today's release of 2 Frenchmen held hostage in Lebanon for between 6 and 9 months; the 2 men had been held by the Revolutionary Justice Organization, a Shiite Muslim group.
- Nov. 17—Georges Besse, the head of the state-owned Renault auto company, is killed outside his home in Paris.
- Nov. 18—The leftist terrorist group Direct Action takes responsibility for Besse's killing.
- Nov. 26—The government says it will lift most price controls by the end of the year.

GERMANY, EAST(See *Germany, West*)**GERMANY, WEST**

- Nov. 9—In state elections in Hamburg, the Social Democratic party loses its parliamentary majority; Chancellor Helmut Kohl's Christian Democratic party wins most of the seats in the state parliament.
- Nov. 26—In a court in West Berlin, a Jordanian and a Palestinian are convicted of bombing an Arab social club earlier this year; the court says it has credible evidence that the 2 men received advice and aid from officials in the Syrian and East German embassies.
- Nov. 27—The government expels 3 Syrian diplomats implicated in the social club bombing.

HAITI(See also *U.S., Foreign Policy*)

- Nov. 18—Two people are killed by police and 3 are wounded during an antigovernment demonstration in Port-au-Prince.

HONDURAS

- Nov. 20—The government denies a U.S. report that thousands of Nicaraguan troops have crossed into Honduras in order to attack the U.S.-backed contra bases located there.

INDIA

- Nov. 7—Prime Minister Rajiv Gandhi's National Congress party installs Farooq Abdullah as chief minister of Kashmir state; the late Prime Minister Indira Gandhi ousted Abdullah from the position 2 years ago.
- Nov. 22—The government says it will ask for at least \$3 billion from the U.S.-based Union Carbide Corporation in compensation for the 1984 chemical gas leak that killed more than 2,300 people in Bhopal.
- Nov. 25—Soviet General Secretary Mikhail Gorbachev arrives for a 4-day state visit with Gandhi.
- Nov. 27—In Bhopal, Union Carbide officials offer to maintain \$3 billion in unencumbered assets in order to meet any judgment requiring that amount in compensation; Union Carbide hopes the offer will cause the Indian court to lift a temporary injunction prohibiting Union Carbide from selling any of its assets worldwide or restructuring its debt.

In a speech in New Delhi, Gorbachev attacks the U.S. Strategic Defense Initiative, calling it a "voracious monster" and an "inhumane concept."

- Nov. 30—Sikh terrorists hijack a bus in the Punjab, identify the Hindu passengers, and kill 23 of them. The terrorists escape.

IRAN(See also *Intl, Iran-Iraq War; Israel; Lebanon; U.S., Administration, Foreign Policy*)

- Nov. 4—In a speech celebrating the 7th anniversary of the takeover of the U.S. embassy in Teheran, Speaker of the Parliament Hojatolislam Hashemi Rafsanjani says that former U.S. national security adviser Robert McFarlane and 4 other Americans entered Teheran recently; he says McFarlane, who arrived on a plane loaded with military equipment, carried as gifts a Bible with an inscription from President Reagan and a cake shaped like a key; McFarlane and the others were expelled after 5 days.
- Nov. 14—President Hojatolislam Ali Khomeini says that there were no "diplomatic" contacts with McFarlane during his visit.
- Nov. 20—Ayatollah Ruhollah Khomeini says he "never expected" that some Iranian officials might try to make contact with the U.S.; he says those who have tried to improve U.S.-Iranian relations are "Satan-oriented."

IRAQ(See *Intl, Iran-Iraq War*)**ISRAEL**(See also *Lebanon; U.S., Foreign Policy*)

- Nov. 5—In Jerusalem, Israel signs an agreement to participate in research on the U.S. Strategic Defense Initiative (Star Wars).
- Nov. 9—The government announces that it is holding Mordechai Vanunu, an Israeli who disappeared from Britain last month after giving *The Sunday Times* (London) information that the paper says proves Israel has nuclear weapons; the government does not say how Vanunu arrived in Israel and for what he is being charged.
- Nov. 13—In an interview with the Associated Press, Prime Minister Yitzhak Shamir says that Israel will not rule out attacks on guerrilla targets in Syria if Syria continues to support "terrorism."

Nov. 26—The government says it has transferred arms to Iran at the request of the U.S., but that it did not know some of the monies paid for the arms were diverted to the Nicaraguan contras.

JAMAICA

Nov. 6—Prime Minister Edward Seaga announces that he has decided not to resign; he says he has reversed last month's decision because of a new International Monetary Fund (IMF) agreement and the strength of Jamaica's economic recovery.

JAPAN

Nov. 11—The Finance Ministry announces a record \$5-billion trade surplus with the U.S. in October.

KOREA, NORTH

Nov. 18—State television shows Kim Il Sung meeting a delegation from Mongolia; the government news station makes no comment on reports that Kim has died.

KOREA, SOUTH

Nov. 5—Opposition leader Kim Dae Jung says he will not run for President in 1988 if the government announces direct elections for the presidency; he says this statement should end the government's fear that he might be elected.

Nov. 9—Kim Young Sam, a prominent South Korean dissident, calls on the U.S. to withdraw its political support from the South Korean government.

Nov. 11—Kim Dae Jung is detained and placed under house arrest to prevent him from attending an antigovernment rally in Seoul.

Nov. 17—The Defense Ministry reports that it believes North Korean head of state Kim Il Sung is dead; the ministry says North Korean loudspeakers announced Kim's death today. The North Korean embassy in Beijing says Kim is alive.

Nov. 29—Thousands of riot police block an antigovernment demonstration in Seoul; the government says it blocked the rally because it would have contained "impure elements," or Communists.

LEBANON

(See also *U.S., Foreign Policy*)

Nov. 2—Islamic Holy War frees David Jacobsen, an American held hostage by the pro-Iranian Muslim group for almost 18 months. The group says recent actions taken by the U.S. may lead to "a solution of the hostage issues." At least two other Americans and 3 Frenchmen are still being held by the group.

Nov. 3—*The New York Times* reports that the Beirut-based pro-Syrian weekly *Al Shiraa* says the U.S. recently delivered spare parts and ammunition to Iran following a secret visit to Teheran by former U.S. national security adviser Robert McFarlane.

Nov. 16—Israeli jets bomb a suspected Palestinian guerrilla base near Sidon; conflicting accounts of damage and casualties are given by the Palestine Liberation Organization (PLO), Lebanese radio stations, and the Israeli military.

Nov. 27—In the 4th attack in 2 weeks, Israeli jets bomb suspected Palestinian guerrilla bases near Sidon; 3 guerrillas are reported killed and 7 wounded.

Nov. 30—At least 52 people have been killed in fighting in Beirut between the PLO and Shiite militiamen; 500 people have been killed and 1,000 wounded in the last 6 weeks of fighting between the 2 groups.

LIBYA

(See also *Intl, UN; Chad*)

Nov. 11—The government announces that it will no longer import arms from Common Market countries because of the Common Market's decision yesterday to ban arms exports to Syria.

MALAWI

(See *Mozambique; South Africa*)

MALAYSIA

Nov. 13—The government lifts its nearly 2-month ban on the sale of *The Asian Wall Street Journal*; it also revokes expulsion orders for 2 of the paper's reporters.

MOZAMBIQUE

(See also *South Africa*)

Nov. 3—The Central Committee of the Mozambique National Liberation Front elects Foreign Minister Joaquim A. Chissano President.

Nov. 19—The government says that in the last 6 weeks approximately 200,000 Mozambicans have fled to Malawi to escape advances made by the South African-backed Mozambique National Resistance.

NICARAGUA

(See also *U.S., Foreign Policy*)

Nov. 15—A political court in Managua finds American Eugene Hasenfus guilty of terrorism and sentences him to 30 years in prison; Hasenfus was captured last month after he parachuted from a contra supply plane shot down by government forces.

PERU

Nov. 5—Government troops kill 10 Shining Path guerrillas in battles in the state of Ayacucho.

PHILIPPINES

(See also *Switzerland; U.S., Foreign Policy*)

Nov. 1—The National Democratic Front, the political party representing the Communist guerrilla New People's Army, asks the government to agree to a 100-day cease-fire and negotiations to end the civil war.

Nov. 5—President Corazon Aquino announces that elections for the national legislature will be held in May, 1987.

Nov. 6—Reacting to rumors of an impending coup, armed forces Chief of Staff General Fidel Ramos warns the military that a coup attempt would "be bloody and destabilizing."

Nov. 13—Rolando Olalia, the head of the leftist Party of the Nation, is assassinated; the military denies responsibility for the killing.

Nov. 17—Leftists call a general strike to protest Olalia's killing; the strike has only a minor effect on Manila and some areas outside the city.

Nov. 20—As many as 200,000 people turn out for Olalia's funeral procession in Manila.

Nov. 23—Aquino dismisses Defense Minister Juan Ponce Enrile and replaces him with Rafael Ileto; during the night, armed forces Chief of Staff Ramos blocks an attempt by troops loyal to Enrile to declare a new government. Aquino also announces that she is giving the Communist guerrillas 7 days to sign a cease-fire.

Nov. 26—Communist guerrillas and the government agree to a 60-day cease-fire to begin December 10; the military says it supports the cease-fire proposal.

Nov. 28—Aquino replaces 2 more Cabinet ministers.

ROMANIA

Nov. 24—The government reports that only 228 out of more than 17 million eligible voters did not vote in yesterday's election, which unanimously approved a referendum cutting military spending by 5 percent.

SOUTH AFRICA

(See also *U.K., Great Britain*)

Nov. 4—President P. W. Botha replaces Minister of Law and Order Louis le Grange and Deputy Minister for Information Louis Nel; UN ambassador Kurt von Schirnding is replaced with Deputy Foreign Minister Albert Manley.

Nov. 5—The government closes 40 black schools in the Eastern Cape province; Sam de Beer, the deputy minister in charge of black education, says the schools will be reopened when student boycotts end and parents accept "responsibility for their children's behavior and discipline."

Nov. 6—Foreign Minister Roelof F. Botha announces that the government has documents recovered from the October plane crash that killed Mozambican President Samora Machel showing that Mozambique and Zimbabwe planned to overthrow the government of Malawi, a supporter of South Africa.

The U.S.-based General Motors Corporation (GMC) dismisses 500 striking workers at its plant in Port Elizabeth; the workers are demanding severance pay because GMC announced last month that it was divesting its holdings in South Africa.

Nov. 14—The government says its forces killed 39 members of the South-West Africa People's Organization (SWAPO) in a raid on a SWAPO camp in Angola; 2 South African soldiers were killed.

Nov. 21—President P. W. Botha says that economic sanctions imposed by the U.S. on South Africa serve only the interests of the Soviet Union.

SPAIN

Nov. 16—Prime Minister Felipe Gonzalez returns after a 9-day trip to Ecuador, Peru and Cuba.

SWITZERLAND

(See also *France*)

Nov. 20—The government bars former Philippine President Ferdinand Marcos from entering the country; Marcos reportedly wants to travel to Switzerland.

SYRIA

(See also *Intl, EEC; France; Germany, West; Israel; U.S., Foreign Policy*)

Nov. 16—President Hafez Assad says Syria is "against terrorism" and will not allow anyone to launch terrorist attacks from Syria; Assad says, however, that Syria supports "national liberation movements."

TAIWAN

Nov. 30—Police break up a demonstration of between 5,000 and 10,000 people in support of Hsu Hsin-liang, a leading dissident who has been exiled to the U.S. for 7 years; Hsu was to return today but was not allowed to finish his flight from Tokyo to Taipei.

THAILAND

Nov. 19—*The Bangkok Post* reports that Khmer Rouge leader Pol Pot is seriously ill and is being treated in China; a guerrilla spokesman denies the report.

TURKEY

Nov. 6—The government releases an indictment that holds Abu Nidal's terrorist group responsible for the September 6 terrorist attack on an Istanbul synagogue; 21 Jews were killed in the attack.

U.S.S.R.

(See also *Intl, Arms Control, Comecon, UN; Afghanistan; India; U.S., Foreign Policy*)

Nov. 10—Tass reports that Vyacheslav Molotov died on November 8; Molotov was a Prime Minister under Stalin.

Nov. 17—Defense Minister Sergei Sokolov attends the opening of the winter session of the Supreme Soviet, the country's nominal Parliament; this is Sokolov's 1st appearance in public since the summer.

Nov. 19—The Supreme Soviet approves legislation allowing individuals and families to act as private entrepreneurs; however, the legislation, which becomes effective May 1, prohibits the hiring of employees.

UNITED KINGDOM**Great Britain**

(See also *Intl, EEC; Israel; U.S., Foreign Policy*)

Nov. 12—Queen Elizabeth II opens Parliament.

Nov. 16—Returning from her 2-day trip to the U.S., Prime Minister Margaret Thatcher says President Reagan assured her that any agreement on cuts in intermediate-range nuclear missiles in Europe as proposed at the Iceland summit would be balanced by cuts in the Soviet Union's conventional forces.

Nov. 18—The government rejects an Argentine proposal to end hostilities with Britain if Britain will drop its plan to establish a 150-mile "military protection zone" around the Falkland Islands.

Nov. 23—Barclays Bank P.L.C. announces that it is selling its South African unit; it is the 1st large British firm to divest its holdings in South Africa.

Nov. 27—The journal *History Today* reports that in 1936 the physician to King George V injected the comatose King with lethal doses of morphine and cocaine in order to allow the King's death to be reported "in the morning papers rather than the less appropriate evening journals."

Northern Ireland

Nov. 16—It is reported that two people have been killed, 71 injured and 91 arrested in 2 days of violent protest in Belfast; the demonstrations marked the 1st anniversary of the Anglo-Irish accord granting Ireland a limited consultative role in Northern Ireland.

UNITED STATES**Administration**

Nov. 1—In Spokane, Robert Nelson Jr. is arrested by Secret Service agents for threatening the life of President Ronald Reagan.

Nov. 3—A charge of munitions smuggling against White House maid Anita Castelo is dismissed.

Nov. 6—In Baltimore, U.S. district court Judge Alexander Harvey 2d sentences John Walker to life in prison and his son Michael to 25 years in prison for their part in a damaging spy ring.

Nov. 11—Deputy Secretary of the Treasury Richard Darman calls U.S. big business "bloated, risk-averse, inefficient and unimaginative."

Nov. 14—Chairman of the Securities and Exchange Commission (SEC) John Shad says that arbitrator Ivan Boesky will pay a fine of \$100 million for illegally using insider information in his Wall Street trading operations; after an 18-month phase-out of his security interests, he will be barred for life from the U.S. securities industry.

Nov. 20—Secretary of Health and Human Services Otis R. Bowen proposes several measures to insure that victims of catastrophic illness pay no more than \$2,000 per year out of pocket; the insurance cost would be met by a \$59-per-year annual Medicare premium.

The Federal Aviation Administration (FAA) orders inspection of wing spars on some 100 Lockheed L-1011 jumbo jets after an inspection shows a 7-inch crack in the spar of a Delta Airlines jet that had made a rough landing at Newark Airport.

Nov. 21—SEC chairman Shad says that Boesky was permitted to sell about \$0.5 billion in securities while he was negotiating his insider trading settlement with the SEC; the commission said it allowed the sale in order to avoid a major financial panic.

Nov. 24—In U.S. district court, 3 persons receive prison terms for their part in a plan to smuggle \$10 million in parts for F-14 jets to Iran.

Nov. 26—President Reagan leaves for a Thanksgiving holiday at his California ranch.

Nov. 28—The Office of Personnel and Management sends all agency heads new guidelines for testing for illegal drug use by federal employees, to be implemented as soon as received.

Economy

(See also *Japan*)

Nov. 7—The Labor Department reports that the nation's unemployment rate remained unchanged at 6.9 percent in October.

Nov. 11—The Commerce Department reports that the U.S. trade deficit with Japan was \$5 billion in October.

Nov. 14—The Labor Department reports that its producer price index rose 0.3 percent in October.

Nov. 18—The Internal Revenue Service (IRS) introduces its new 4-page W-4 withholding form, supposedly a simplification of the present 2-page form.

Nov. 19—The Commerce Department reports that the nation's gross national product (GNP) rose at an annual rate of 2.9 percent in the 3d quarter of 1986.

Nov. 25—The Labor Department reports that its consumer price index rose 0.2 percent in October.

Nov. 26—The Commerce Department reports that the nation's foreign trade deficit declined slightly to \$12.06 billion in October.

Foreign Policy

(See also *Intl, Arms Control; Argentina; Canada; China; Honduras; India; Iran; Israel; Lebanon; Nicaragua; South Africa; UK, Great Britain*)

Nov. 2—David Jacobsen, the director of the American University Hospital in Beirut, is freed after being held 18 months by the Islamic Holy War organization in Beirut.

Nov. 3—In a State Department ceremony, Edward Perkins is sworn in as ambassador to South Africa.

Nov. 4—The official Iranian press agency reports that former White House national security adviser Robert McFarlane and 4 other Americans visited Iran recently on a secret mission and were expelled after 5 days.

Nov. 6—U.S. intelligence sources say that the U.S. sent weapons and military supplies to Iran in an effort to gain the release of U.S. hostages in Lebanon and to influence future Iranian leaders.

Speaking about the Vienna arms control talks, Secretary of State George Shultz says, "I regret . . . that the meetings" have not "moved arms control matters along in any significant way."

Nov. 7—According to administration officials, President Reagan approved plans 18 months ago to make secret contacts with Iranian officials to improve relations and help free U.S. hostages in Lebanon. The U.S. also accepted an Israeli offer to deliver U.S. arms and military supplies to Iran.

Commenting on the Iranian arms deal, Secretary Shultz says that the "White House is in charge of the Executive

branch and [has] issued a statement that all questions [about the Iranian arms deal] shall be answered by the White House . . . and I have no comment to make myself."

With President Reagan standing at his side, released hostage David Jacobsen asks journalists not to attempt to report details of the negotiations for the release of the other hostages.

Nov. 10—President Reagan refuses to disclose administration dealings with Iran; he says that "no U.S. law has been or will be violated" and that "our policy of not making concessions to terrorists remains intact."

Nov. 11—Administration officials say that President Reagan will continue his present policy toward Iran in hopes of freeing the U.S. hostages.

Nov. 12—According to White House officials, President Reagan met today with congressional leaders and confirmed that military supplies were sent to Iran. The President told the leaders that he believed the secret negotiations could lead to the release of 2 more hostages held in Lebanon; this is an apparent contradiction of his stated policy of not dealing with terrorists or making deals with them for the release of hostages and not supplying military material to Iran.

Nov. 13—Speaking on national television, President Reagan defends his "secret diplomatic initiative to Iran," saying that "small amounts of defensive weapons and spare parts" were sent to Iran "to send a signal that the United States was prepared to replace the animosity between us with a new relationship." He says it is "utterly false" that the weapons were a "ransom" for the U.S. hostages in Lebanon.

Treasury officials report a meeting about 2 weeks ago in The Hague with Iranian officials to negotiate some \$500 million in Iranian overpayments made to settle claims after the 1979 hostage crisis was resolved.

Nov. 14—White House spokesman Larry Speakes admits that the Central Intelligence Agency (CIA) was involved in the secret shipment of U.S. arms to Iran.

Speakes announces several new political and economic sanctions against Syria because of Syria's purported involvement in the attempt to blow up an Israeli airliner in England.

Nov. 15—In Nicaragua, a 3-member tribunal finds Eugene Hasenfus guilty on charges of terrorism and other crimes and sentences him to 30 years in prison.

Britain's Prime Minister Margaret Thatcher meets with President Reagan at Camp David in order to clarify their positions about what was said at the Iceland summit.

Nov. 16—Appearing on CBS's "Face the Nation," Secretary Shultz says that he was opposed to sending any military equipment to Iran; he says he is not speaking for the Reagan administration on this issue.

Nov. 19—In a nationally televised news conference, President Reagan says that no more arms will be sent to Iran and that he will fully brief Congress about his January 17, 1986, "intelligence finding" to ship arms to Iran. The President says that Shultz will continue in his post; he denies that Shultz offered to resign.

After the news conference, in an unusual written clarification, the President acknowledges that "there was a third country [Israel] involved in our secret project with Iran." He says he wishes to "eliminate the widespread but mistaken perception that we have been exchanging arms for hostages. . . ."

Nov. 20—In seeming contradiction to earlier statements, former national security adviser Robert McFarlane says that in view of the "understandable turmoil" caused by sending arms to Iran, he now believes the project was a mistake.

Nov. 21—According to House majority leader Jim Wright

(D., Tex.), Iran paid \$12 million for 2,008 antitank missiles (many of which came from Israeli stockpiles) as part of the U.S.-Iran negotiations.

Secretary Shultz admits to taking part in 2 "full-scale discussions" with President Reagan before the Iranian arms deal was cleared.

The Senate and House Intelligence Committees begin holding hearings on the arms deal.

Assistant Secretary of Defense Richard Perle says that the U.S. is still interested in concluding an agreement with the Soviet Union to do away with ballistic missiles over a 10-year period.

President Reagan meets in Washington, D.C., with Haiti's interim leader General Henri Namphy to discuss a \$100-million U.S. aid package for Haiti.

Nov. 23—The State Department reiterates "our strong and unequivocal support" for the changes Philippine President Corazon Aquino has made in her administration and for her actions toward the Philippine Communist insurgents.

Nov. 24—When asked whether Secretary Shultz will remain in his administration, President Reagan says, "I am not firing anybody." He also says that "I did not make a mistake" over the Iran arms deal.

In testimony before the House Foreign Affairs Committee, Deputy Secretary of State John Whitehead says that "we in the State Department still do not have a detailed record of what happened" in the Iran arms deal. He asks the White House to "undo the damage quickly."

Nov. 25—At a televised news conference, President Reagan asserts that he was not "fully informed" of some aspects of the Iran arms deal. He says that national security adviser John Poindexter is leaving his post and that Poindexter's assistant, Lieutenant Colonel Oliver North, has been relieved of his duties, since "serious questions of propriety" have been raised.

At the same press conference, Attorney General Edwin Meese 3d says that the Justice Department is investigating the transfer to the Nicaraguan contras of between \$10 million and \$30 million in payments for the arms shipped to Iran; the money was funneled to the contras at a time when U.S. aid to the contras was prohibited by Congress. Meese says Israeli intermediaries deposited the money in Swiss bank accounts. Meese claims that only Poindexter, North and former national security adviser McFarlane had knowledge of the whole deal.

Spokesmen for the contras deny receiving any funds.

President Reagan says that from now on Secretary Shultz will be in control of U.S. policy toward Iran.

Nov. 26—President Reagan names former Texas Senator John Tower, former Secretary of State Edmund Muskie, and former national security adviser Brent Scowcroft to conduct "a prompt and thorough study" of the National Security Council.

Meese says that the Justice Department is investigating others "who have tangential relationships with the U.S. government" for possible involvement in the transfer of money to the contras.

Nov. 27—It is reported by administration officials that last weekend North shredded documents in his office that might have come from the files of the National Security Council.

Meese is conducting a private investigation into the weapons sale to Iran.

Nov. 28—The Senate Intelligence Committee urges the White House to make sure of the safety of documents relating to the Iran arms deal.

White House counsel Peter Wallison issues a memorandum to White House officials and National Security Council members to preserve all records relating to the arms deal.

The U.S. exceeds limitations imposed in 1979 by the 2d strategic arms limitation treaty (SALT II) when it puts into service a newly equipped B-52 bomber, able to carry cruise missiles.

Nov. 30—Senator Bob Dole (R., Kan.) asks President Reagan to summon Congress back into session next week in order to set up a committee to investigate the Iran arms deal.

Disturbed at being called into the Iran affair only on November 26, the Federal Bureau of Investigation (FBI) calls for a special prosecutor.

Labor and Industry

(See also *India; South Africa*)

Nov. 6—The General Motors Corporation announces that it will close 11 plants employing 29,000 people over the next 2 years.

Legislation

Nov. 6—President Reagan pocket vetoes legislation strengthening the Clean Water Act of 1971; he claims its \$18-billion-sewage treatment provisions are too costly.

President Reagan signs the new comprehensive immigration bill that offers legal status to illegal aliens who were in this country before January 1, 1982.

Nov. 14—President Reagan signs a comprehensive bill that will permit the export of prescription drugs before their approval for U.S. use; the measure also provides for compensation for children injured because of treatment with vaccines.

President Reagan vetoes a measure that would set up a national space council and would authorize the programs of the National Aeronautics and Space Administration for 1987.

Nov. 17—President Reagan signs the Water Resources and Development Act that authorizes some \$16 billion in projects without providing the funds.

Nov. 20—Senator Robert Byrd (D., W.Va.) is formally chosen as majority leader of the Senate.

Military

Nov. 26—Defense Secretary Caspar Weinberger censures Navy Secretary John Lehman for pressuring the Raytheon Company to halt criticism of the Defense Department by a Raytheon executive, Lawrence Korb.

Politics

Nov. 3—National elections are held.

Nov. 4—In yesterday's elections for members of the 100th Congress, the Democratic party regains control of the Senate, 55 to 45; it holds its majority in the House (with some races undecided), 258 to 174. The Republicans made a net gain of 8 state governorships. Despite President Reagan's campaigning for Republican candidates, voters seemed to focus on local issues and candidates.

Nov. 5—In spite of the election results, President Reagan promises to "complete the revolution we have so well begun."

Nov. 7—Voter turnout in the election is estimated at 37.3 percent, the lowest turnout since 1942.

Supreme Court

Nov. 3—In a 5-3 decision, the Supreme Court upholds a lower court decision that states may not refuse family planning grants to private groups that use money from other sources for abortion counseling.

VIETNAM

Nov. 14—*The New York Times* reports that last week Vietnam devalued its currency for the 3d time this year.

ZIMBABWE

(See *South Africa*)



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